Texasgulf Annual Report 1976

Ten Year Summary of Production (Figures are in short tons unless otherwise noted and indicate Texasgulf's share)

Product	1976	1975	1974	1973	1972	1971	1970	1969	1968	1967
Sulphur (long tons)	2,311,000	2,151,000	2,494,000	2,639,000	2,868,000	2,839,100	2,955,500	3,043,700	3,030,000	3,031,000
Oil & Condensates (barrels)	229,600	259,200	248,900	248,700	244,000	226,000	277,000	304,000	289,100	297,900
Gas (million cubic feet)	14,905	18,487	20,754	17,786	17,861	14,836	11,646	10,657	10,000	9,557
Potash	598,600	529,800	616,200	513,800	518,400	266,900	430,800	440,100	410,000	338,000
Sulphuric Acid	1,687,600	1,533,300	1,560,000	1,137,000	1,035,000	744,000	670,000	686,000	697,000	525,700
Phosphoric Acid (as 54% P_2O_5)	950,800	884,200	869,400	605,700	594,300	477,500	435,100	439,700	443,600	325,000
Dry Phosphate Fertilizers	517,700	450,600	461,500	345,500	405,700	281,000	298,800	365,600	409,000	275,600
Copper Concentrates	234,700	238,400	241,200	206,900	182,200	182,100	172,000	184,000	205,400	205,000
Zinc Concentrates	474,200	504,700	580,400	589,900	616,700	590,800	582,800	582,100	562,500	432,000
Lead Concentrates	38,600	31,600	36,200	36,900	42,100	61,900	70,400	93,900	96,000	43,000
Silver (troy ounces in concentrates)	10,415,000	9,235,000	10,553,000	10,691,000	13,039,000	12,720,000	13,023,200	13,822,000	13,968,000	7,800,000
Cadmium Metal (lbs. in concentrates)	2,360,000	2,555,000	3,151,000	2,960,000	3,034,000	3,214,000	3,201,000	3,156,000	3,049,000	1,989,000
Zinc Metal (from Tg Zinc Plant)	107,700	93,000	107,900	107,100	60,100					
Iron ore sinter fines	885,600	728,000	738,400	460,000	156,200					
Iron ore pellets	442,700	395,100	429,300	387,000	34,500					
Gypsum (sales)	119,000	130,000	129,000	115,000	58,000					
Tin (lbs. in concentrates)	410,300	628,400	486,200							
Hydrofluosilicic Acid (as 100%)	2,100	100								
Dicalcium Phosphate	38,900	16,100								
Limestone	74,300	60,700								
Soda Ash	37,000									

Texasgulf Inc.
P.O. Box 175 1977
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Toronto, Ontario M5L 1E7

Texasgulf Inc. 1976 Annual Report

Agricultural Chemicals

Industrial Chemicals

Metals

Oil and Gas

Minerals Exploration

Forest Products

International

1976 Highlights

Annual Meeting. The annual meeting of shareowners will be held in the Houston Club Building, Houston, Texas on Thursday, April 28, 1977. Notice of the meeting, proxy statement and proxy will be sent to shareowners on or about March 28, 1977.

Texasgulf's Form 10-K Report to the Securities and Exchange Commission for 1976 will be available upon request to the Corporate Secretary, Texasgulf Inc., High Ridge Park, Stamford, Conn. 06904.

About the Cover. A dramatic view of the open pit of the Kidd Creek Mine as seen from a breakthrough from the underground mine 400 feet below the surface. Transition from open pit to underground mining will be completed in 1977.

Texasgulf Inc. and Subsidiaries

Comparative Highlights

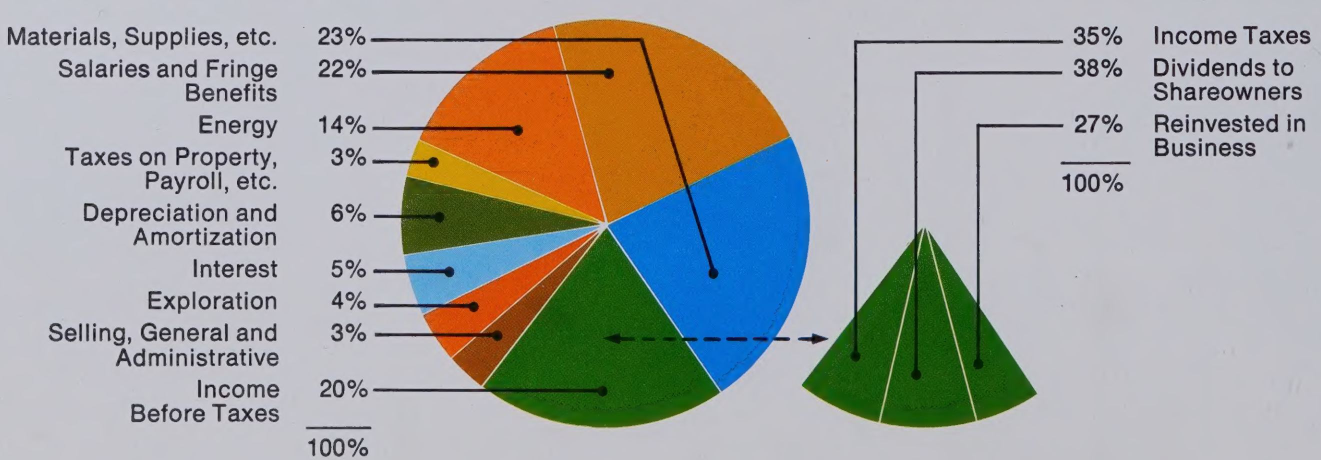
	1976	1975	1974
Sales	**$ 480,540,000**	$ 444,645,000	$568,526,000
Net income	**$ 62,914,000**	$ 103,224,000	$147,300,000
Net income per common share	**$ 2.05**	$ 3.37	$ 4.83
Dividends paid per common share	**$ 1.20**	$ 1.20	$ .98
Working capital*	**$ 244,168,000**	$ 178,315,000	$183,842,000
Ratio of current assets to current liabilities	**3.6 to 1**	2.6 to 1	2.3 to 1
Total assets	**$1,372,602,000**	$1,155,738,000	$976,937,000
Long term debt, less current maturities	**$ 266,176,000**	$ 227,913,000	$134,729,000
Stockholders' equity*	**$ 795,393,000**	$ 619,934,000	$551,159,000
Number of employees as of Dec. 31	**5,340**	4,874	4,345
Number of shareowners of record Dec. 31	**62,289**	64,534	66,881
Average number of common shares outstanding	**30,735,287**	30,615,846	30,483,276

*Restated. See note 4, page 37.

Division	Sales (Amounts in Millions) 1976	Sales 1975	Income* (Amounts in Millions) 1976	Income* 1975
Agricultural Chemicals	$148.7	$139.2	$ 21.9	$ 47.6
Industrial Chemicals	117.8	128.9	24.1	38.6
Metals	230.5	195.9	104.0	109.4
Oil and Gas	13.8	11.8	6.7	5.1
Other, including elimination of interdivision sales	(30.3)	(31.2)	5.7	4.2
	$480.5	$444.6	$162.4	$204.9

*Excluding interest income and expense, corporate administrative expense, exploration expense and income taxes.

Distribution of Sales Revenue (1976) **Distribution of Income Before Taxes**



To Our Shareowners:

1976 was a disappointing year. Production and sales of most products increased but earnings progressively declined during the year because of depressed prices and higher costs. The outlook for 1977 is favorable and we remain confident of the long-term growth in demand for all of Texasgulf's products.

Sales increased 8% from \$444.6 million in 1975 to \$480.5 million in 1976, but net income declined 39% from \$103.2 million, or \$3.37 per share in 1975 to \$62.9 million, or \$2.05 per share in 1976.

Approximately 35 per cent of the decrease in income before taxes for 1976 was attributable to lower agricultural chemicals operating profit, primarily because of lower prices. Industrial chemicals income also declined because of lower sulphur sales volume and higher costs. Higher metal sales volumes, except for zinc concentrates which declined, were more than offset by lower prices and increased costs.

Income before taxes was also reduced approximately \$16,800,000 by the combination of higher interest expense and reduced interest income, attributable to the major capital projects under way. Exploration also accounted for a portion of the decline, being about \$6,000,000 higher than in 1975. An additional \$5,000,000 decline was caused by the impact of foreign currency exchange and translation losses due to the relative strength of the Canadian dollar in 1976 as compared with 1975.

Product inventory increased to \$192,508,000 in 1976 from \$139,460,000 in 1975. At December 31, 1976 inventory tonnage included:

Sulphur	3,946,700
Zinc concentrates	166,400
Zinc	48,800
Copper	14,700
Phosphoric acid (100% P_2O_5)	14,500
Dry phosphate fertilizers	45,900
Potash	195,800

Production of soda ash, a major addition to the company's product line, began in the fourth quarter of 1976 and should make a significant contribution to sales and earnings in 1977.

On September 30, 1976, the Nanisivik zinc-lead-silver mine and concentrator on Baffin Island, the northernmost mining operation in North America, began production on schedule. Texasgulf retains a 35% net profits interest in this operation after the recovery of exploration and development expenditures and production financing.

During 1976 Texasgulf continued to emphasize the important characteristics and major strengths which make it a unique natural resources company:

- A policy of long-term growth and diversification
- Strong reserve position in many natural resources

Charles F. Fogarty Richard D. Mollison

- Expertise in production, marketing and technology
- Outstanding capabilities in exploration
- A unique relationship with employees

Recognition by the financial community of these characteristics contributed to the successful completion of major financing. The company sold 3 million shares of convertible preferred stock at \$50 per share in December 1976. One-third of the offering was sold to Canada Development Corporation (CDC) at the public offering price but without deduction for underwriting fees. CDC also owns approximately 30% of the outstanding shares of Tg's common stock.

Progress was made toward achievement of Texasgulf's long-range goals. Operations in 1976 are reviewed in the following pages.

Agricultural Chemicals Division

Operating Statistics
(All dollar amounts in millions)

	1976	1975	% Change
Sales	$148.7	$139.2	+ 6.8
Division income	$ 21.9	$ 47.6	— 54.0
Capital expenditures	$ 8.9	$ 73.8	— 87.9
Property, plant and equipment, net	$262.2	$264.7	— .9
Production (short tons)			
Phosphate rock	2,151,500	1,862,600	+ 15.5
Phosphoric acid as 54% P_2O_5	950,800	884,200	+ 7.5
Dry fertilizers	517,700	450,600	+ 14.9
Feed phosphates	49,300	16,100	+206.2
Limestone products	74,300	60,700	+ 22.4
Potash	598,600	529,800	+ 13.0

Sales
(All dollar amounts in millions)

	1976		1975	
	$	%	$	%
Phosphate rock	3.8	2.6	.5	.4
Phosphoric acid	57.0	38.3	58.8	42.2
Dry fertilizers	48.2	32.4	55.4	39.8
Feed phosphates	8.0	5.4	3.0	2.2
Limestone products	1.0	.7	.7	.5
Potash	29.3	19.7	19.7	14.1
Other	1.4	.9	1.1	.8
	148.7	100.0	139.2	100.0

At the Lee Creek phosphate operation in eastern North Carolina land on mined out areas is being reclaimed and used to grow crops and graze cattle.

The Agricultural Chemicals Division includes the phosphate mine and chemical complex at Lee Creek, North Carolina; the feed ingredients plant at Weeping Water, Nebraska; the potash mine near Moab, Utah; the Allan potash mine near Saskatoon, Saskatchewan; the liquid fertilizer plant at Mt. Olive, North Carolina, and the administrative and marketing division headquarters at Raleigh, North Carolina.

Mining production capacity at the Lee Creek phosphate operation was increased in 1976 by the addition of a 30-inch suction dredge and a new 50-cubic yard dragline. The suction dredge shown in operation above will also facilitate land reclamation by pumping some of the overburden to mined out areas.

Product tonnage sold in 1976 increased 36%, but division income decreased as a result of higher costs and severe price deterioration in phosphate products.

Lee Creek mining and production facilities expanded

The most recent expansion program at the Lee Creek, North Carolina, phosphate fertilizer complex was completed during 1976. The fourth sulphuric and phosphoric acid units which started up in the last quarter of 1975 increased production capacity by 170,000 tons to a total of 680,000 tons of 100% P_2O_5 per year.

A new 255,000 tons-per-year granular triple superphosphate plant and a new superphosphoric acid unit with an annual capacity in excess of 125,000 tons of 70% P_2O_5 were completed at the end of 1975. Both plants began production in the first quarter of 1976. Two additional 500,000 tons-per-year fluid bed phosphate rock calcining units began operations in January, 1976.

A new 30-inch Ellicott suction dredge was completed and began removing overburden in February, 1976. A new 50-cubic yard Marion dragline began operating in June. The addition of the dragline and dredge will increase the mining capacity from an ore mining rate of 3.5 million tons of phosphate concentrates to 5 million tons per year. This will provide suf-

Agricultural Chemicals Division

ficient rock to supply the expansion of acid plant production from the present 680,000 tons of P_2O_5 per year to 1 million tons, plus the rock required for triple superphosphate production and about 500,000 tons of phosphate rock for sale each year.

At Lee Creek Texasgulf owns or leases about 35,000 acres containing approximately 2.2 billion tons of phosphate sands averaging about 13% P_2O_5, of which 1.2 billion tons are proven recoverable reserves.

North Carolina liquid fertilizer plant added to Tg operations

A liquid fertilizer facility was acquired in June, 1976. The plant, located in Mt. Olive, N.C., about 115 miles west of Lee Creek, produces a clear 10-34-0 liquid fertilizer base material, designated "Tgreen." With increased use of liquid fertilizers, sales from the Mt. Olive plant are expected to increase to about 1,000 product tons per month over the next few years.

The most recent expansion program of phosphate fertilizer production facilities was completed in 1976. The fourth sulphuric and phosphoric acid units shown in the foreground increased production capacity to a total of 680,000 tons of 100% P_2O_5 per year.

Cane Creek operations

Production of potash at the Cane Creek Mine near Moab, Utah increased slightly in 1976. Improved operating techniques of the solar evaporation ponds and lower than normal rainfall in 1976 contributed to the increase.

Experimental work on solution mining outside of the old underground mine workings continued. Two new test wells were completed in late 1976. Three test runs using sprays to increase evaporation rates were conducted and new harvesting techniques were tested.

Potash bearing material potentially recoverable by solution mining from the former underground mine is estimated to total more than 9 million tons of 17.2% K_2O.

Allan Potash Mines

Production at Allan Potash Mines in Saskatchewan increased by 20% in 1976. Substantial capital expenditures are needed to bring Allan production capability to the full design capacity of 1.5 million tons per year of potash.

At present consideration of additional private investment in Saskatchewan faces two major barriers—a confiscatory reserve tax and the government threat of purchase or expropriation of all potash properties. To enable the mines to operate profitably the reserve tax must be replaced by a reasonable tax on net profits.

Under the provincial Potash Development Act of 1976, the Government-

Production of potash at the Cane Creek Mine near Moab, Utah, increased slightly in 1976. Operating techniques of the solar evaporation ponds continued to improve.

owned Potash Corporation of Saskatchewan (PCS) may expropriate some or all of the 11 potash producing mines in the Province. One potash mine has been acquired by PCS and several others have been evaluated for purchase or expropriation.

PCS approached Texasgulf and the other owners in late January, 1977 with a request to carry out an evaluation of the Allan Potash Mines and plant. The evaluation is expected to begin in March and will take several months to complete. Whether this will result in a government offer to buy or expropriation of the property is not known. Meanwhile, the current program to improve operations has shown good progress and will continue.

Allan Potash Mines is owned 40% by Texasgulf, 40% by U.S. Borax, and 20% by Swift.

Reserves at Allan are 1.68 billion tons of ore averaging 24.3% K_2O.

Export sales

Texasgulf's export sales of phosphate fertilizer materials are marketed by the Phosphate Chemicals Export Association, Inc. (Phoschem), a Webb-Pomerene Act corporation. Texasgulf's potash from the Allan mine is marketed offshore by Canpotex.

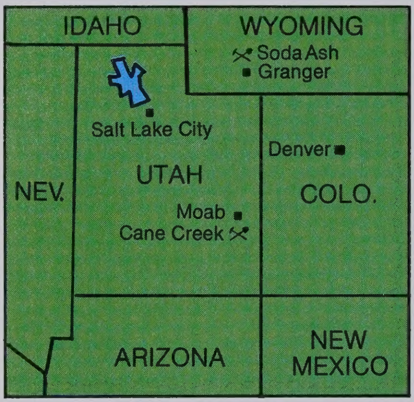
Fertilizer marketing trends

Phosphate fertilizer prices fell progressively during 1976. Late in the fourth quarter, however, prices firmed and have since increased. Potash prices remained much the same throughout the year.

World consumption of phosphate fertilizer materials increased from 23 million tons in 1975 to 24 million tons in 1976. World production in 1976 totaled 25 million tons, compared with 25.7 million tons in 1975.

World consumption of potash increased to 21.5 million tons in 1976 from 20 million tons in 1975. World production of potash was 23.3 million tons in 1976, compared with 23.6 million tons in 1975.

Industrial Chemicals Division



Operating Statistics
(All dollar amounts in millions)

	1976	1975	% Change
Sales	$117.8	$128.9	− 8.6
Division income	$ 24.1	$ 38.6	− 37.6
Capital expenditures	$ 68.8	$ 92.4	− 25.5
Property, plant and equipment, net	$218.7	$156.9	+ 39.4
Production			
Sulphur (long tons)	2,311,000	2,151,000	+ 7.4
Soda ash (short tons)	37,000	—	—

Sales
(All dollar amounts in millions)

	1976 $	1976 %	1975 $	1975 %
Sulphur	117.5	99.7	128.9	100.0
Soda ash	.3	.3	—	—
	117.8	100.0	128.9	100.0

The Industrial Chemicals Division includes the production and sales of soda ash and sulphur. The first production and sales of soda ash began in the fourth quarter.

Soda ash plant began production on schedule in 1976

Soda ash became Texasgulf's latest major diversification. The first circuit of the new plant near Granger, Wyoming started production on October 7. Two circuits designed to produce a total of one million tons of soda ash per year were in operation in November. First shipments to customers in the United States and Canada have been well received.

Soda ash is sodium carbonate which is widely used in the glass and chemical industries and in many other industrial processes. Soda ash processed from trona is in increasing demand with the continued closings of synthetic (Solvay) plants because of high operating costs and environmental problems.

Texasgulf's new soda ash processing plant started up in October. Initial design capacity of 1 million tons per year can be readily expanded to 2 million tons.

Aerial view of the new soda ash plant in southwestern Wyoming. A 4.5-mile spur connects the plant to the main line of the Union Pacific Railroad. ▶

Industrial Chemicals Division

Texasgulf's Wyoming trona reserves of about 176 million tons of ore are adequate to sustain large scale production for many decades. Both the trona mine and soda ash processing plant were designed so that production can readily be expanded to 2 million tons of soda ash per year. About 1.8 tons of ore are mined for each ton of soda ash produced.

The orebody was discovered by Texasgulf in 1963 and consists of two flat-lying beds at depths of 1,370 and 1,420 feet. The beds are relatively consistent in thickness and grade and average about 90% pure trona, suitable for processing into a high quality, dense product.

The soda ash mine and plant are connected to the main line of the Union Pacific Railroad by a 4.5 mile spur.

Mine development included the sinking of a 16-foot diameter shaft to a depth of 1,495 feet and a 22-foot diameter shaft to a depth of 1,560 feet. The ore is mined by the room and pillar method using continuous miners.

The surface facilities have been designed to blend naturally with the Wyoming sagebrush landscape. More than $14 million have been spent on the latest environmental control equipment. The plant is the first soda ash operation designed to use coal instead of oil or natural gas, drawing on Wyoming's ample coal supplies for its fuel.

The soda ash plant and mine are staffed by 350 employees. The operation attracted many new employees to the area and Texasgulf built 225 permanent homes in nearby Green River.

Consumption and production of soda ash produced in the United States were about the same in 1976, totaling 7.7 million tons. About 550,000 tons were exported. Natural soda ash production increased to 5.3 million tons, which offset a decline of 2.4 million tons in synthetic output.

The price for soda ash was increased by $4.00 in late February, 1977 to $55 per ton, effective April 1.

The boiler plant, heart of efficient operations at the Newgulf, Texas Frasch sulphur mine, has been maintained in "mint" condition over the years.

Texasgulf's sulphur inventories increased

Texasgulf's sulphur inventories increased to 3,946,700 long tons as production was up and sales volume was down.

Production from Texasgulf's Frasch sulphur mines in Texas and Louisiana increased about 13.3% during the year amounting to a total of 1,793,800 long tons.

Production costs continued to rise. Sulphur produced by the Frasch

process requires the heating of several million gallons of water daily. Energy costs in the Frasch operations increased 38% in 1976 over 1975.

The Fannett Frasch sulphur mine in Jefferson County, Texas was closed March 1, 1977 because of the high cost and scarcity of natural gas, the increase in other production costs, the depletion of reserves and the company's large sulphur inventory.

Fannett began production May 1, 1958 and during its 19 year life yielded approximately 3,500,000 long tons of sulphur. In 1976, Fannett produced 167,000 long tons.

Texasgulf's production of recovered sulphur in Alberta was slightly above 1975, amounting to 273,400 long tons.

Sulphur production at the Texistepec mine operated by Compania Exploradora del Istmo (CEDI) in Mexico, in which Texasgulf has a 34% interest, amounted to 716,600 long tons.

The Whitecourt recovered sulphur plant near Edmonton is one of four in Alberta in which Texasgulf has an interest. Sulphur produced by recovery from sour natural gas increased slightly.

Sulphur marketing outlook is favorable

Domestic Frasch sulphur prices remained unchanged from the 1975 level of $65 per long ton f.o.b. Tampa, Florida. Prices in Canada and overseas dropped $5 to $10 per ton.

World sulphur consumption increased from 44.8 million long tons in 1975 to 46.3 million long tons in 1976. World production in 1976 was 51.1 million long tons compared with 50 million long tons in 1975. Since sulphur consumption has historically been closely related to the index of industrial production, a significant recovery from the recession would quickly reduce the imbalance between consumption and production.

The outlook for sulphur is favorable. Demand is projected to increase steadily with improvements in the world economy and with growth in the phosphate fertilizer and chemical industries. More than half of the sulphur consumption is in the manufacture of phosphate fertilizers.

New commercial uses of sulphur presently being studied offer excellent market potential. Among new developments is the use of sulphur as a substitute for asphalt in road paving material. Preliminary test results in the United States, Europe and Canada are encouraging. Depending on the process used, as much as 7 million tons of sulphur annually could be required in the United States alone for road paving, resulting in saving large quantities of oil normally used in manufacturing asphalt.

Texasgulf markets sulphur in Canada, the United States, and various foreign countries. Four sulphur tankers, a network of liquid sulphur terminals, and a fleet of inland water barges and tank cars are used in supplying sulphur to both North American and export markets.

Texasgulf's recoverable sulphur reserves are estimated at more than 35 million long tons, including its share of reserves in Mexico.

Metals Division

Operating Statistics
(All dollar amounts in millions)

	1976	1975	% Change
Sales	$230.5	$195.9	+17.7
Division income	$104.0	$109.4	− 4.9
Capital expenditures	$ 70.5	$ 52.6	+34.0
Property, plant and equipment, net	$317.4	$262.0	+21.1

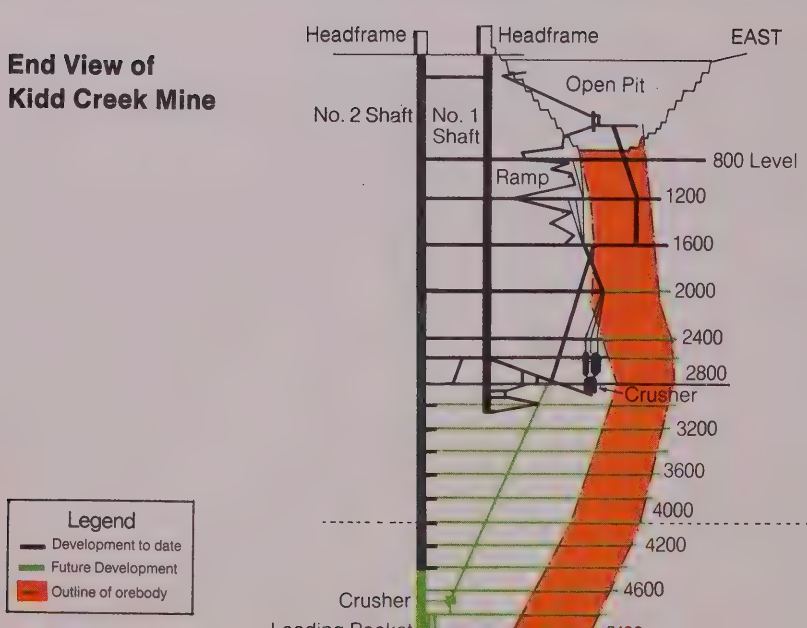
Production (short tons)

	1976	1975	% Change
Ore milled	3,574,000	3,630,000	− 1.5
Copper concentrates	234,700	238,400	− 1.6
Lead concentrates	38,600	31,600	+22.2
Zinc concentrates	474,200	504,700	− 6.0
Zinc	107,700	93,000	+15.8
Cadmium (pounds in concentrates)	2,360,000	2,555,000	− 7.6
Silver (troy ounces in concentrates)	10,415,000	9,235,000	+12.8
Tin (pounds in concentrates)	410,300	628,400	−34.7

Sales
(All dollar amounts in millions)

	1976		1975	
	$	%	$	%
Copper	79.2	34.4	58.9	30.1
Lead concentrates	7.8	3.4	6.7	3.4
Zinc concentrates	42.4	18.4	60.2	30.7
Zinc	73.5	31.9	46.0	23.4
Cadmium	4.7	2.0	.7	.4
Silver	21.9	9.5	21.7	11.1
Tin concentrates	1.0	.4	1.7	.9
	230.5	100.0	195.9	100.0

End View of Kidd Creek Mine



Kidd Creek Mine and concentrator production at high level

Production at the Kidd Creek Mine and concentrator in Timmins, Ontario, continued at a high level in 1976.

During 1976 mining continued from both the open pit and the underground mine. About 1.55 million tons of ore were mined from the open pit and 2.05 million tons from underground. Mining in the open pit will be completed in 1977 as the underground comes up to full capacity.

Construction of facilities to expand production and processing of ore at the Kidd Creek mine from 3.6 to 5 million tons of ore per year proceeded satisfactorily in 1976.

Backfilling to permit 100% recovery of the underground ore began in 1976. One stope was backfilled from the surface during the year with a lean concrete mix of cement, water and crushed waste rock from the open pit. The backfill appears to be very satisfactory. Good progress was made on the underground backfill distribution system, and mined-out stopes are scheduled for backfilling early in 1977.

Underground mining was concentrated on the 800 and 1,200-foot levels while development continued on the 1,600-foot level. Supplies of developed, drilled and broken ore were increased as planned to facilitate future mining. The use of highly efficient, large rotary drilled blastholes for stoping was increased and a new sequential blasting technique was developed to eliminate blasting damage from the large explosive charges contained in the holes. Texasgulf is the world leader in the development and use of underground rotary drilling and sequential blasting.

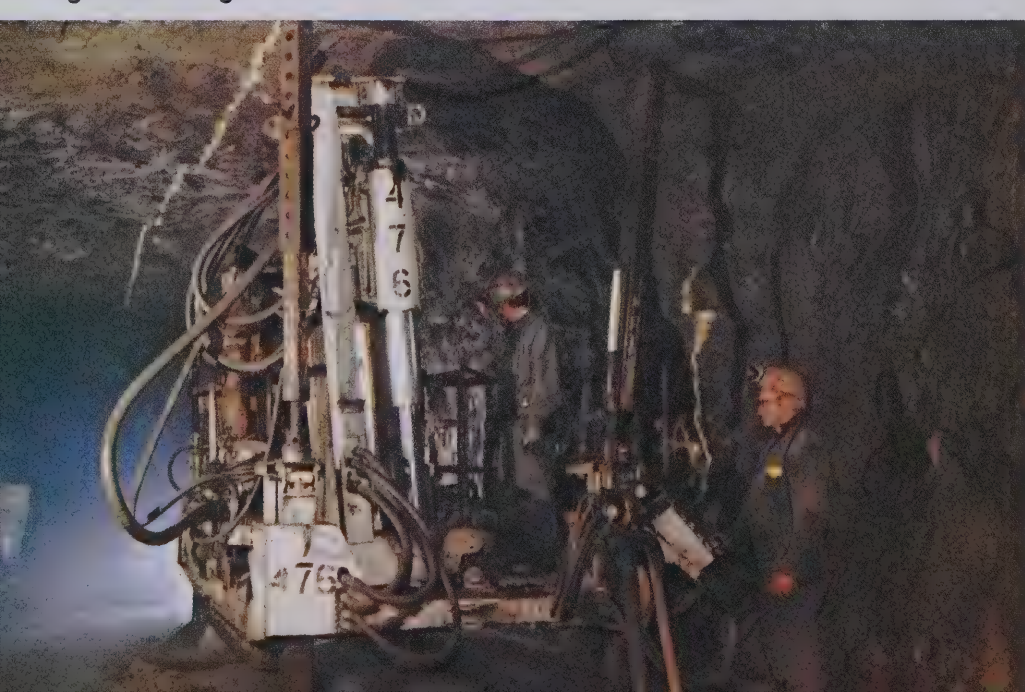
Kidd Creek expansion progresses

The expansion program to increase production and processing of ore from 3.6 to 5 million tons per year proceeded satisfactorily. Construction of the fourth circuit in the concentrator, the No. 2 shaft headframe and supporting facilities at the mine and metallurgical sites are on schedule. Sinking the No. 2 shaft has been somewhat slower than originally planned.

The No. 2 shaft has reached a depth of more than 4,400 feet below surface. Eight stations have been cut at

Metals Division

More than 2 million tons of ore were mined from the underground in 1976. Texasgulf is a leader in the development and use of rotary drilling and sequential blasting in underground mining.



200 foot intervals between the 2,600 and 4,000-foot levels. On completion of sinking to a depth of 5,100 feet in mid 1977 the shaft will be furnished with galvanized steel members. Hoisting should start early in 1978, allowing development and construction of the ore crushing and transport systems necessary for production. Work is already in progress developing the block of ore between the 2,600- and 2,800-foot levels so that mining can commence in the No. 2 mine as soon as the shaft and ore handling facilities are ready.

Copper smelter and refinery construction and concentrator expansion

Construction continued during 1976 on expanded facilities for the Kidd Creek concentrator and the new copper smelter and refinery at the metallurgical site.

A new services building for the zinc plant has been completed. It provides improved changehouse facilities for the zinc plant and office space re-

Piles were driven to support buildings and machinery for the new copper smelter and refinery at Kidd Creek.

quired for the concentrator expansion and the copper smelter and refinery. In the concentrator, construction of the expanded ore load-in station, crushing plant and concentrate drying and shipping facilities is well underway.

Overall construction of the copper smelter and refinery is about 10% complete. Piles have been driven, construction of the main foundation for the smelter building is nearly completed and work on the smelter acid plant has started. The smelter building and refinery tankhouse will be erected in 1977. Start up for the smelter and refinery is scheduled for late 1979.

Ore reserves

From the start of operations in November, 1966 through December 31, 1976 the Kidd Creek Mine produced a total of 35.8 million tons of ore that assayed an average of 1.60% copper, 0.36% lead, 9.36% zinc and 4.09 ounces of silver per ton.

At the end of 1976 ore reserves above the 2,800-foot level were estimated at 89 million tons. Of that total

Aerial view of the Kidd Creek metals operation. Fourth circuit is being added in the concentrator building.

85 million tons were classified as proven and probable ore containing an estimated 2.73% copper, 0.22% lead, 6.08% zinc and 2.30 ounces of silver per ton. An additional 4 million tons were classified as inferred ore.

The deepest drill hole to date indicates good copper mineralization at 5,000 feet. The orebody is open at depth and horizontally at many levels. Texasgulf is confident of being able to produce at the rate of 5 million tons of ore per year for more than 25 years.

Metals market trends

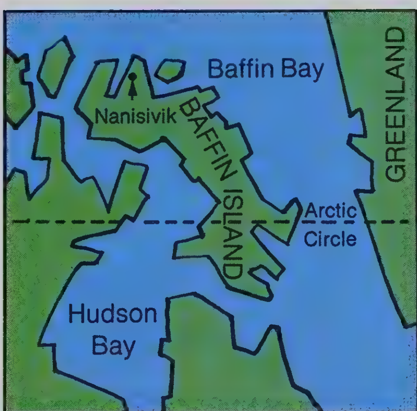
In 1976, metal markets followed trends in the world economy with a growing optimism during the first three quarters of the year but with a degeneration in both consumer confidence and prices during the fourth quarter.

Texasgulf's zinc price in the U.S. began and ended the year at 37.5 cents a pound for special high grade zinc (SHG). In August, Texasgulf increased the price of SHG to 40.5 cents, but withdrew the increase in September as the market weakened. The European producer price, applicable to Texasgulf zinc concentrate sales, remained steady at 36 cents throughout the year.

Zinc metal sales were up by 60% over 1975. A very slow fourth quarter resulted in an increase in Texasgulf year-end inventories.

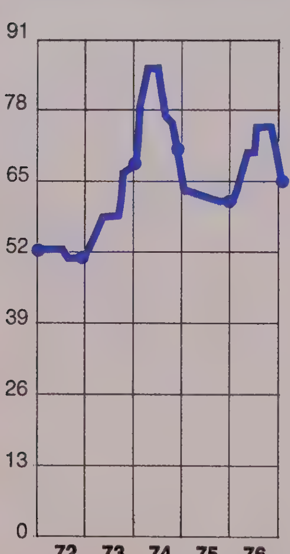
Copper prices increased in April, 1976 from 66 cents to 70 cents a pound and in early July to 74 cents,

Metals Division

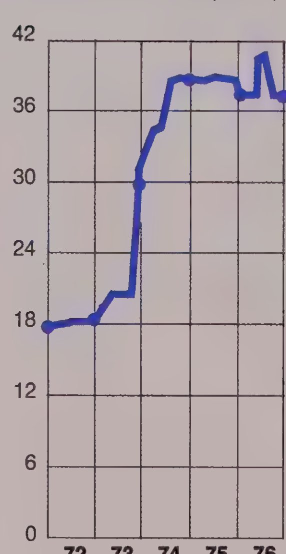


In 1976 production began at the first commercial mine north of the Arctic Circle in North America on Baffin Island. At the left (1) is the concentrator designed to produce at an annual rate of about 130,000 tons of zinc concentrates and 10,000 tons of lead concentrates with some silver. In the center (2) is the adit to the deposit discovered by Texasgulf in 1957. Townsite facilities at far right (3) include an igloo-shaped recreation center.

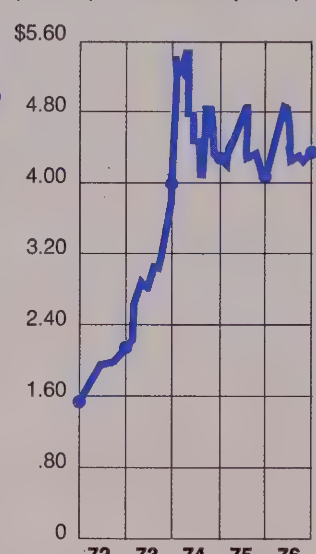
Copper Prices
(cents per lb.—monthly aver.)



Zinc Prices
(cents per lb.—monthly aver.)



Silver Prices
(dollars per oz.—monthly aver.)



but lost these gains in the second half. Texasgulf's sales continued good, and shipments exceeded production. Copper prices in the U.S. and Canada increased from 65 to 68 cents a pound in late January, 1977, and to 71 cents a pound in March.

Silver demand during 1976 was good. The price varied between $3.81 and $5.10 per ounce. The price early in 1977 was about $4.75 per ounce.

Tin prices strengthened during the year, rising from $2.85 to approxi-

mately $4.05 per pound at year end. The price early in 1977 was about $5.00 per pound.

Cadmium prices increased during 1976 from $2.00 to $3.00 per pound and appear to be improving. Demand was good and shipments exceeded Texasgulf production.

Lead prices began the year at 19 cents a pound but increased during the year to 26 cents a pound. In February, 1977 the price increased to 31 cents a pound.

Baffin Island zinc-lead-silver operation startup

On September 30, the first zinc concentrate was produced from Baffin Island's Nanisivik mine. The design capacity is 130,000 tons per year of zinc concentrates and 10,000 tons of lead concentrates with some silver.

Other facilities such as concentrate handling, power, water, tailings disposal and a jet aircraft landing strip were installed and operating. Initial housing is in use. A town centre and more housing will be ready in April, 1977.

Texasgulf discovered this orebody in 1957 and retains a 35% net profits interest in the operation after the recovery of exploration and development expenditures and production financing.

Half Mile Lake

At Half Mile Lake in New Brunswick, where more than 6 million tons of zinc-copper-lead mineralization have been established, evaluation work continued. Metallurgical testing, however, proved to be very disappointing as low concentrate grades and recoveries were obtained. For this reason, the 2,800-foot exploration shaft is being deferred. Further exploration work in the area, however, will be carried out.

Oil and Gas Division

Operating Statistics
(All dollar amounts in millions)

	1976	1975	% Change
Sales	$13.8	$11.8	+ 17.0
Division income	$ 6.7	$ 5.1	+ 31.4
Capital expenditures	$18.2	$23.9	– 23.8
Property, plant and equipment, net	$27.0	$25.6	+ 5.5
Production			
Oil and condensate (barrels)	229,600	259,200	– 11.4
Gas (million cubic feet)	14,905	18,487	– 19.4

Sales
(All dollar amounts in millions)

	1976		1975	
	$	%	$	%
Oil and condensate	2.0	14.5	2.0	16.9
Gas	11.8	85.5	9.8	83.1
	13.8	100.0	11.8	100.0

Oil and Gas Division revenue increased in 1976

Texasgulf's revenue from the sale of oil and gas increased during 1976 and is projected to increase significantly in 1977 as a result of sales from Block 480 West Cameron offshore Louisiana which started producing in late December, 1976.

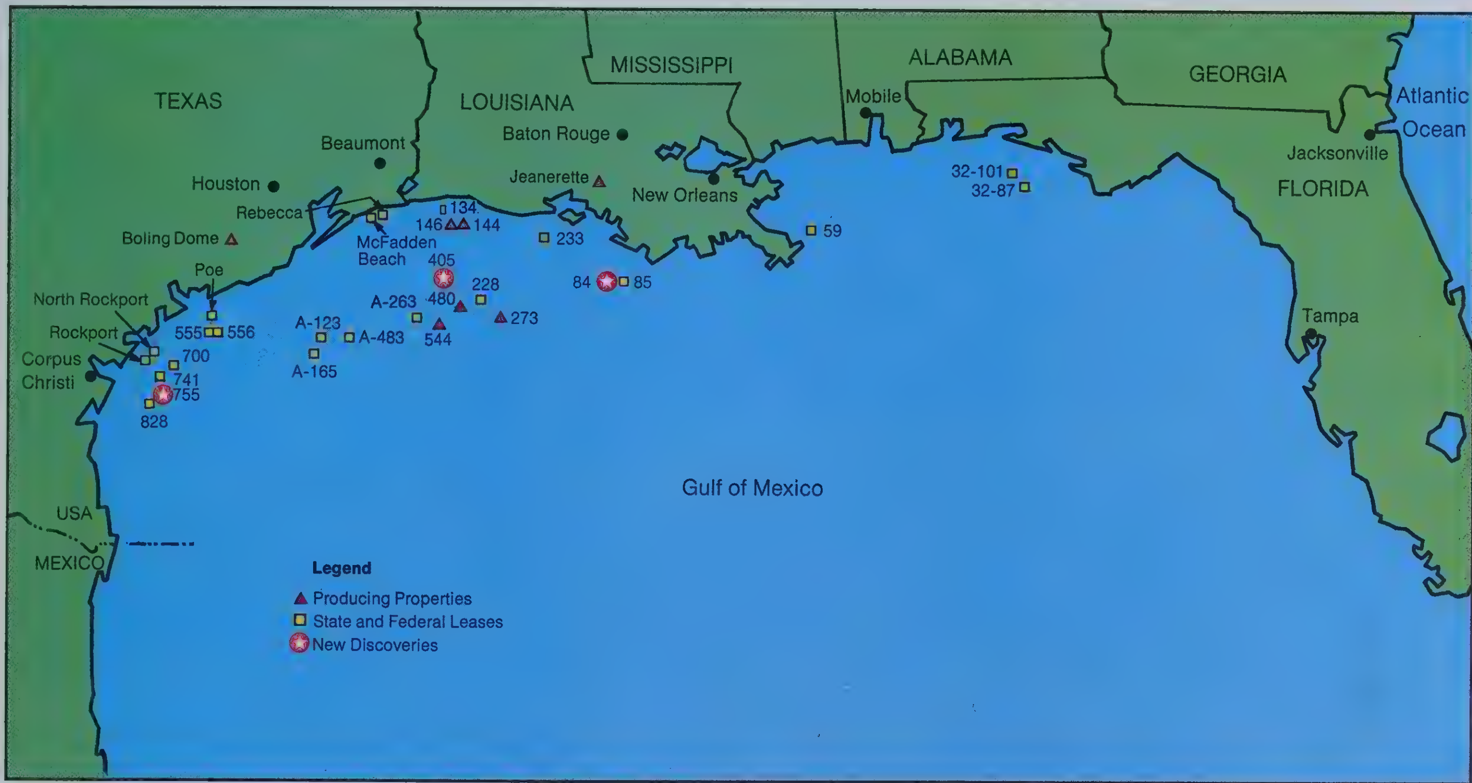
Texasgulf participated in 33 wildcat and 25 development wells during the year. Seven of 21 completed wildcats were indicated discoveries and 19 of 24 development wells were successful as oil and/or gas producers. At year's end, 9 wildcat wells and 1 development well were still drilling. Three wildcats were classified as suspended until a later date.

Areas under lease totaled 16,892,237 gross acres or 6,980,379 net acres at the end of 1976.

Following is a table indicating drilling activity and acreage by operating area.

	Wells drilled		Acreage held	
	Wildcat	Development	Gross	Net
U.S.	31	10	442,033	117,632
Canada	1	15	498,038	213,346
Alaska	1	0	19,633	3,045
Foreign	0	0	15,932,533	6,646,356
Total	33	25	16,892,237	6,980,379

In the Gulf of Mexico Texasgulf has interests ranging from 20% to 100% in 23 Federal tracts and 29 Texas State tracts.



Gulf of Mexico

Two wildcat wells drilled off the Louisiana coast in the Gulf of Mexico during 1976 resulted in separate gas-condensate discoveries. One was located on Block 405 West Cameron in which Tg has a 25% interest, and the other on Block 84 Ship Shoal, in which Tg has a 33⅓% interest. Another well started in 1976, but completed in early January 1977 on Block 755 Mustang Island off Texas, encountered gas-condensate on a third structure in which Tg has a 20% interest.

During the year Texasgulf acquired 2 additional Federal leases in the Gulf of Mexico. One, Block 741 Mustang Island off Texas, in which Tg has a 20% interest, is adjacent to the Block 755 discovery and the other, the east half of Block 134 West Cameron, is on an established gas producing structure. Texasgulf now has an interest in 23 Federal and 29 State of Texas leases in the Gulf of Mexico which are either producing or under consideration for further exploratory activity.

Five properties in which Texasgulf has an interest are now producing gas-condensate in the Gulf of Mexico. The latest, Block 480, West Cameron (Tg 20%), went on stream in late December and is scheduled to deliver gas at the rate of 100 million cubic feet per day, plus condensate. Texasgulf's portion has been contracted for sale to Texas Eastern Transmission Corporation under terms providing Texasgulf $5,400,000 in interest-free loans to cover development costs.

United States onshore projects

In Oklahoma where Texasgulf is in a joint venture with Cheyenne Petroleum Co., a gas discovery was made at Weaver's Creek, Blaine County in 1976 and an oil producer was added in the Okarche area, Canadian County in January 1977. Development drilling continues at West Whitebead Field, Garvin County, where an eighth producing well was completed in February. Additional wells are planned. These discoveries in Oklahoma are small by Gulf of Mexico standards but should be quite profitable.

In mid-1976 Texasgulf acquired a 12½% interest in an exploration program in Colorado and Wyoming conducted by Rainbow Resources of Casper, Wyoming. Through this par-

Oil and Gas Division

ticipation, Texasgulf has an interest in approximately 192,000 acres and the drilling of 18 wells. Fourteen of these tests were drilled by year's end, with 4 indicated gas discoveries in the Stateline area of the Sand Wash Basin which require more evaluation.

Gulf of Alaska

In April, Federal lease sale No. 39 was held for tracts in the Gulf of Alaska. Texasgulf, with other members of a bidding and exploration group organized and operated by Gulf Oil Corporation, was successful in acquiring three of the most prospective blocks, No. 105 Icy Bay, No. 120 Icy Bay and No. 329 Icy Bay. Texasgulf spent $4,153,190 for its interests, which ranged from 5% to 10%, in the above leases.

Texasgulf joined with other owners of Block 105 Icy Bay and those of Block 106 in drilling a stratigraphic test on Block 106. The well, operated by Shell Oil Company, was drilled to a depth of 13,565 feet. The projected depth of 15,000 feet was not reached and the bottom 1,200 feet of the drilled hole were not completely evaluated. However, no indications of producible hydrocarbons were encountered.

In other areas of Alaska, the Cook Inlet, the Beaufort Sea continental shelf, and the Bering Sea continental shelf, Texasgulf is continuing programs to locate and evaluate structural features that will be of interest as lease sales are held. A Federal sale may be held in 1977 in the Lower Cook Inlet where a group composed of Cities Service, Getty and Texasgulf, each having a 20% interest, has been joined by Gulf Oil Corporation which will have a 40% interest.

Canada

Drilling is under way on a large foothills structure in the Gregg Mountain Park area of Alberta. Texasgulf has a one-third interest in this 13,500-foot well to test Mississippian formations.

The waterflood program undertaken in the Provost field is functioning satisfactorily. The first production response is anticipated in 1977.

At the North Battleford heavy oil pilot project, three new wells and two previously drilled wells were steamed and produced over a period of five months. Oil produced during 1976 exceeded 8,300 barrels and operating techniques were improved. The results are somewhat encouraging, but many technological problems inherent in this type of project must be solved before going much further. Equally important is a satisfactory understanding with the government of Saskatchewan.

Texasgulf's active oil and gas exploration projects both offshore and onshore in 1976 were more geographically diversified.

Reserves

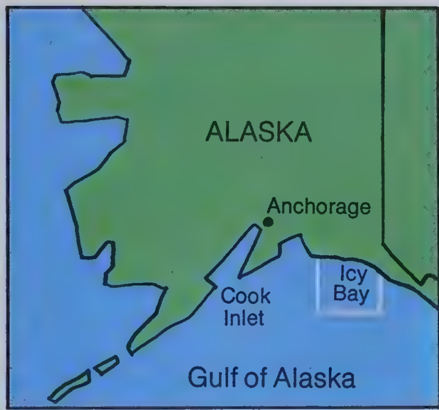
The company's reserves in the United States and Canada as of December 31, 1976 were estimated at 22.0 million barrels of oil and 410.7 billion cubic feet of gas.

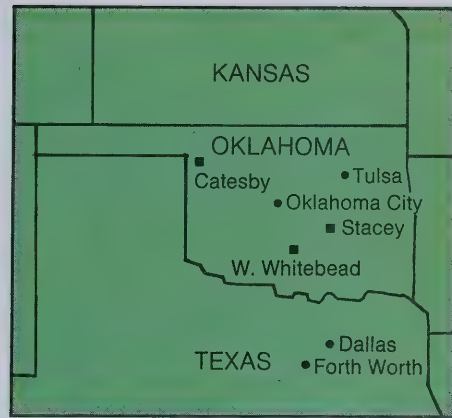
Overseas exploration

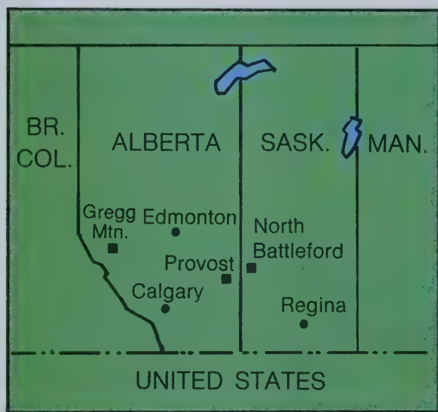
Pakistan was the main area of Texasgulf's foreign exploration activity in 1976. The geophysical evaluation of Indus Basin blocks neared completion, and a large surface structure, the Karak Prospect, Northwest Frontier Province, was acquired.

Of three Indus Basin blocks, Kashmor and Larkana, totaling 7,880 square miles, were retained, while Umarkot, 3,240 square miles, was released.

Early in 1976, Texasgulf was invited to join Attock Oil Company Ltd. and Pakistan Oilfields Ltd. in the evaluation of the very large Karak surface feature. Agreements were signed in August and a limited seismic program conducted to determine the location for the initial well which will be started in the first half of 1977. Tg has a 35% interest. Structures similar to the Karak prospect have enjoyed a high success ratio and account for the major portion of Pakistan's oil production.







Minerals Exploration Division

Exploration is continuing on a base metal sulphide deposit at Izok Lake, 225 miles north of Yellowknife in the Northwest Territories.

Drilling continues at Izok Lake copper-zinc-lead-silver deposit

In Canada, drilling continued on the base metal sulphide deposit at Izok Lake, 225 miles north of Yellowknife, Northwest Territories. During 1976, 97 diamond drill holes were completed. The drilling further defined the central zone, explored two adjacent zones, and tested some of the surrounding area.

Drill indicated mineralization at Izok Lake now totals 12.15 million tons of 2.8% copper, 13.77% zinc, 1.4% lead and 2.05 ounces of silver per ton. In the surrounding area, significant mineralized drill intersections have been obtained south and west of Izok Lake. Evaluation of these indications requires further drilling, which will be done in 1977.

In northern British Columbia, the Red Group porphyry copper prospect is now estimated to contain 45.2 million tons with an average grade of 0.56% copper and 0.01 ounce of gold per ton, to a depth of 500 feet. The mineralization continues below the deepest drilling. The property lies 8 miles from the Cassiar-Stewart highway, which connects the area to the port of Stewart, B.C., 100 miles to the south.

Minerals exploration drilling in 1976 included many projects in the United States and Canada.

Two other porphyry copper prospects have been discovered within fifteen miles of the Red Group. Preliminary work has been encouraging, and both properties will be explored more intensively in 1977.

Elsewhere in Canada, exploration continued in Ontario, especially in the area of the Kidd Creek mine, and in Newfoundland, Nova Scotia, New Brunswick and Quebec.

Drilling for uranium continues in Wyoming

At Radon Springs in south central Wyoming, Texasgulf's estimate of 4

This camp serves as minerals exploration headquarters in the area of Izok Lake and Hood River in the Northwest Territories.

million pounds of U_3O_8 was confirmed by additional drilling in 1976. The potential for additional uranium ore was also established by drilling in contiguous areas. Further exploration will be required before a production decision can be made.

At Lost Creek, 13 miles south of Radon Springs, 48 holes were drilled in 1976. Sixteen of these holes cut mineralization with thickness and uranium content of economic interest.

Uranium exploration is also being carried out in other parts of the western United States.

Cripple Creek exploration project

At Cripple Creek, Colorado, where Texasgulf has a joint venture with Golden Cycle Gold Corporation, mine rehabilitation and data compilation are nearing completion. Exploration drilling has been at a low level, but will be expanded in early 1977.

Some low grade gold mineralization was encountered in drilling from the surface. One underground hole drilled from the 3,100-foot level intersected 69.65 ounces of gold per ton

Minerals Exploration Division

At the Cripple Creek Gold Camp in Colorado, the main effort has been in the compilation of all of the geological and mining data available for the years from 1895 to 1976.

over 3.6 feet of true thickness and 1.40 ounces of gold over 3.6 feet of true thickness in separate structures approximately 325 feet below the 3,100 foot level. Additional drilling has not been done to determine the significance of these results. Further exploration and analysis is necessary before any evaluation of the project can be made.

More than 220,000 feet of drilling provided confirmation of an estimated 4 million pounds of U_3O_8 at Radon Springs in south central Wyoming.

Exploration in other areas

Porphyry copper reconnaissance exploration continued in the western United States. Lead-zinc exploration is underway within the mid-continent region and certain areas of Nevada. Copper-lead-zinc-silver exploration is active within the eastern United States. Exploration continues for coal, potash, phosphate and sulphur.

Exploration for copper continued at Rio Murga, Mexico, for coal, gold and base metals in Australia, and for other minerals in Spain, South Africa and Ireland.

Tg's Forest Products Division produces ▶ pulpwood and saw and veneer timber on more than 260,000 acres of woodlands, primarily in Pennsylvania and Ontario.

International Division

Evaluation of Cerro Colorado copper deposit continues

Detailed feasibility studies of the Cerro Colorado copper project in western Panama are scheduled for completion in 1978. A major metals complex with a productive capacity of 100,000 tons of ore per day is being studied. Texasgulf presently estimates the Cerro Colorado deposit to contain at least 1 billion tons of more than 0.6% copper mineralization.

An adit started in April, 1976, has been driven 460 meters into the deposit. Bulk samples from the adit are being used for pilot plant testwork and for comparison with diamond drill core assays. About 35 additional diamond drill holes have been completed to provide further information on grade, geology, structure, rock strength, and overburden. More than 150 holes had previously been drilled in the deposit.

Mine design studies underway include computer studies, production planning, selection of mining methods and equipment, and estimation of capital and operating costs. Brown & Root and Seltrust Engineering are providing engineering services for the concentrator, roads, port, smelter and related facilities. Additional studies on marketing, financing, training and the environment are progressing.

Pursuant to agreements between Texasgulf and the government of Panama, Texasgulf will manage the project through the feasibility study, construction and the first 15 years of operation. Texasgulf holds a 20% equity interest in the project with the remaining 80% held by an agency of the government of Panama.

Production up at Robe River

Shipment of iron ore pellets and iron ore sinter fines from the Robe River operation in Western Australia reached 11,874,000 tons in 1976, compared with 11,134,000 in 1975. Texasgulf holds a 10.5% interest in the project.

Price increases were negotiated for both pellets and sinter fines, and plans were made to increase the productive capacity of the mine and processing complex to 19.8 million tons per year.

Broken Hill Proprietary Ltd. exercised its option to purchase 50% of the Robe River railroad and portsite facilities for 40.3 million Australian dollars, equivalent to $44 million

1976 projects at Texasgulf's research center at Golden, Colorado included testing bulk samples taken from the Cerro Colorado copper deposit in Panama.

As part of Texasgulf's evaluation of the ▶ Cerro Colorado copper deposit in western Panama, an adit was started in April 1976 and has been driven 460 meters into the deposit which is presently estimated to contain 1 billion tons of more than 0.6% copper mineralization.

International Division

Drilling at Marandoo in Western Australia has shown that the deposit contains large reserves of high grade iron ore.

Production facilities for the Robe River iron ore operation in Western Australia were expanded in 1976. Ore mined from surface mesas at the mine site is shipped 100 miles to processing and pelletizing facilities on the Indian Ocean at Cape Lambert.

(U.S.) at the end of 1976. It is expected that the proceeds of the sale will be used for the expansion of the facilities. In 1976 Robe River contributed $1,950,000 of earnings to Texasgulf compared with $2,345,000 in 1975.

Marandoo iron ore project in Western Australia

Texasgulf continued negotiations during 1976 for the sale of iron ore from the Marandoo deposit in Western Australia to Japanese steel mills. Texasgulf has a 50% interest in the project with Hancock and Wright of Australia. The participants have agreed to offer Japanese steel mills a 33⅓% equity interest in the project, with Texasgulf retaining a like interest.

Engineering and financial studies have been refined and updated in order to develop the most economic methods of mining, processing and transporting the ore. Extensive testwork has been done.

The Marandoo deposit contains over 320 million long tons of hematite mineralization averaging about 62.6% iron, 0.05% phosphorus, 2.9% silica, and 1.9% alumina.

Evaluation of Giles continues

Plans are being made to follow the Marandoo project with the development of a very high grade hematite iron deposit at Giles Point, southeast of Marandoo. This material is especially suitable for direct reduction to metallic iron. Reserves of more than 230 million tons have been defined by detailed geological mapping and diamond drilling. The company has a 50% interest in this deposit with Hancock and Wright.

Pandora chromium-platinum evaluation continues

Drilling on the Pandora chromium-platinum project in South Africa has proved a 50 million ton reserve to a depth of 650 feet with an additional 200 million tons of probable and inferred reserves.

A bulk sample was obtained from a declined tunnel and concentrated in pilot plants in South Africa and the United States. Smelting tests on the concentrate have shown that saleable high carbon ferrochrome can be produced by either of two commercial processes. Market surveys indicate long term growth for ferrochrome sales to the stainless steel industry. Concentrates containing platinum group metals can be extracted from the ore, and various methods of upgrading the metals are being investigated.

Peabody Coal acquisition offer

Texasgulf decided in October, 1976, not to participate in the acquisition of Peabody Coal Company from Kennecott Copper Corporation.

Shareowners participation in dividend reinvestment plan growing

More than 8% of Texasgulf's shareowners are now enrolled in the company's dividend reinvestment plan for the purchase of additional shares of Texasgulf common stock.

Quarterly dividends of 30 cents a share of common stock were paid in 1976 on March 15, June 15, September 15, and December 15.

The board of directors declared a dividend of 30 cents per share of common stock payable March 15, 1977 to shareowners of record February 15. This will be the 222nd consecutive quarterly dividend payment.

On February 3, 1977, the board declared the first quarterly dividend of 75 cents per share on the company's $3 convertible cumulative preferred stock which was issued December 15, 1976. The dividend is payable March 15, 1977 to preferred shareholders of record February 15, 1977.

Employee shareownership plan

Under the Employee Shareownership Plan (ESP), which was established in 1974, 8,500 additional shares of Texasgulf common stock were awarded during 1976 to employees based on their years of service. Under the plan each non-officer receives one share of stock for each year of service on each 5th anniversary of employment. The 1976 awards brought the total number of shares distributed to more than 54,500.

The total number of Texasgulf employees increased during 1976 from 4,800 to more than 5,300.

More than 54,500 shares of stock have been awarded under the Texasgulf Employee Shareownership Plan.

New Corporate Headquarters

On March 14, 1977 the company will move its corporate headquarters to High Ridge Park, Stamford, Connecticut 06904.

On behalf of the board of directors, we would like to express our appreciation to all employees for their outstanding efforts in all of the company's operations. We are also grateful to all shareowners, customers and community neighbors for their support and interest throughout the year.

Respectfully submitted,

Charles F. Fogarty
Charles F. Fogarty
Chairman of the Board
and Chief Executive Officer

R. D. Mollison
Richard D. Mollison
President

March 3, 1977

Financial Review

Although earnings were disappointing, 1976 was another year of growth for the company. Total assets increased almost 19% during the year to a new high of nearly $1.4 billion. Sales at $480.5 million were the second highest in the history of the company. The large capital expenditure programs for expansion and diversification required new capital and external financing.

The company went to the equity market for the first time since its formation and sold $150 million of convertible cumulative preferred stock. The European debt market was also used to sell $50 million of Euro-Canadian notes and debentures. At year end there was $210 million available under the $250 million bank credit and term loan agreement entered into in December, 1975.

At the end of 1976 working capital amounted to $244.2 million resulting in a current ratio of 3.6 to 1. Product inventories increased $53.0 million to $192.5 million. Sulphur and zinc accounted for the largest part of the increase.

The proceeds of the sale of the preferred stock were used to reduce long term debt which amounted to $266.2 million at year end. As a result long term debt was 25.1% of total capitalization.

Net assets at the end of 1976 totalled $795.4 million, an increase of 28.3%, with $362.1 million or 45.5% outside the United States. Canada accounted for the majority of this amount, $290.9 million, not including (U.S.) $13.0 million long term notes payable of a subsidiary; Australia, $36.0 million; Mexico, $16.0 million, and other countries, $19.2 million.

Quarterly Financial Highlights (unaudited)

	(amounts in thousands)			Per Common Share	
	Sales	Operating Income (1)	Net Income	Net Income	Dividends
1976					
1st Quarter ..	$110,549	$ 27,851	$ 15,957	$ .52	$ .30
2nd Quarter ..	134,573	35,716	20,562	.67	.30
3rd Quarter ..	128,503	31,290	16,491	.54	.30
4th Quarter ..	106,915	19,194	9,904	.32	.30
Total	$480,540	$114,051	$ 62,914	$2.05	$1.20
1975					
1st Quarter ..	$109,037	$ 47,064	$ 30,409	$1.00	$ .30
2nd Quarter ..	108,822	42,437	26,186	.85	.30
3rd Quarter ..	109,740	41,262	24,743	.81	.30
4th Quarter ..	117,046	37,686	21,886	.71	.30
Total	$444,645	$168,449	$103,224	$3.37	$1.20

(1) Operating income represents sales less operating, delivery and other related costs and expenses, including exploration and selling, general and administrative expenses.

Discussion of Earnings

Year 1976. Net income for 1976 amounted to $62.9 million, a decline of 39.1% from $103.2 million in 1975.

Sales for 1976 were $480.5 million compared to $444.6 million in 1975, an increase of 8.1%, reflecting increased volume for substantially all of the company's products except for sulphur which was lower.

Metal sales were higher primarily due to increased volume of zinc and copper. Agricultural chemicals sales volume increased, while average prices received for dry phosphate products fell 33% or more from a year ago and phosphoric acid prices decreased approximately 8%.

Royalty, interest and other income declined $6.9 million, principally because of a reduction of funds available for short term cash investments and reduced earnings of affiliates accounted for by the equity method.

Operating, delivery and other related costs and expenses for 1976 were $321.3 million, an increase of 30.2% over 1975's $246.7 million. Approximately 54% of the increase resulted from increased volume. The balance was attributable to increases in unit costs for labor and materials, due primarily to increased charges for smelting and refining of copper and higher prices for gas used at the company's Frasch sulphur mines.

Exploration charges increased $6.0 million in 1976, largely as a result of charges in the fourth quarter for projects determined to be unsuccessful. Selling, general and administrative charges increased $9.6 million in 1976. Of the increase, $5.0 million resulted from foreign currency translation charges of $2.5 million in 1976 compared to credits of $2.5 million in 1975. The balance of the increase was largely due to increased personnel costs and commitment fees on credit agreements.

Interest expense increased $13.0 million, due to increased charges from the $125.0 million debentures issued on December 23, 1975 and from increased long term borrowings during the year. The increase was partially offset by reduced interest rates.

The provision for income taxes was $34.0 million lower in 1976 largely due to lower income before taxes. The effective income tax rate of 35.2% in 1976 is lower than the 39.8% used in 1975, reflecting the decrease in income before taxes. It also reflects the increased processing allowance, due to the major capital improvements being made at the Kidd Creek Mine, available in calculating the Ontario mining tax.

Year 1975. Net income for 1975 amounted to $103.2 million, a decline of 29.9% from $147.3 million in 1974.

Sales for 1975 were $444.6 million compared to $568.5 million in 1974, a decrease of 21.8%. The reduction in sales and earnings was largely due to lower demand for most of the company's principal products.

More than three fourths of the decrease in 1975 sales was due to metals. Copper and particularly zinc accounted for most of the decline. Although the demand for copper was off only slightly, the average copper price realized for 1975 was down 26% from the previous year. Zinc prices remained firm during 1975, but sales of zinc metal and concentrates decreased substantially.

Agricultural chemicals accounted for nearly 20% of the reduction in sales for 1975. The major causes of the decline were lower sales volume and prices for dry phosphate fertilizers. Increased average prices for sulphur offset lower sales volume.

Royalties, interest and other income increased $1.7 million in 1975. Increased earnings of affiliates accounted for by the equity method were largely offset by lower interest income as a result of the reduction in the company's portfolio of short term investments during the year.

Operating, delivery and other related costs and expenses for 1975 were $246.7 million, a decrease of 5.2% from 1974's $260.3 million, on lower sales volume. Unit labor, material and other costs increased in all operations because of inflation. Sulphur costs were significantly higher due to substantial increases in natural gas fuel costs and to high production costs at the Spindletop Mine which was shut down in February, 1976. Costs related to this shutdown were reflected in 1975. Also higher were charges for taxes imposed by the Saskatchewan government on potash producers commencing July 1, 1974.

Exploration charges were $7.9 million lower in 1975, primarily due to lower charges for projects determined to be unsuccessful during the year. Selling, general and administrative expenses were $2.6 million below 1974. The decrease reflects gains due to the change in accounting for foreign currency translation in accordance with FASB 8 and lower state and franchise taxes because of reduced income.

Provision for income taxes in 1975 was reduced to an overall effective rate of 39.8% from 45.3% in 1974. The lower rate reflects the reduced proportion of overall income in 1975 which was subject to the higher Canadian income tax rate including the Ontario mining tax. It also reflects the lesser proportion of income subject to the Ontario mining tax because of increased processing allowance due to major capital improvements being made at the Kidd Creek Mine.

Capital Expenditures

Capital expenditures in 1976 were $206.2 million, compared with the record total of $238.7 million in 1975. Three major ongoing programs accounted for nearly 60% of the 1976 total. The largest was $67.6 million for the completion of the soda ash mine and processing facilities in Wyoming. The other two major 1976 capital programs were in the Metals Division in Timmins. About $30.1 million was spent for the development of the second underground mine and the expansion of the concentrator facilities and $21.2 million for the construction of the copper smelter and refinery.

Worldwide exploration expenditures for 1976 amounted to $26.6 million, about the same as in 1975. The Oil and Gas Division spent $15.7 million for exporation, including $4.2 million for offshore bids. The Minerals Exploration Division expenditures totalled $10.9 million in 1976. About 83% or $22.0 million of all exploration expenditures last year were made in the United States and Canada. Of this, $12.3 million was spent on oil and gas and $9.7 million on minerals exploration.

Normal capital expenditures in operating divisions, including equipment replacements and improvements to facilities, totalled $43.2 million in 1976. The Agricultural Chemicals Division accounted for $17.5 million, the Metals Division $10.3 million and the International Division $8.3 million.

Continued high levels of capital expenditures have been planned for 1977. The current plan has budgeted approximately $200 million primarily for the continuing construction of the two major Metals Division programs and for exploration.

The copper smelter and refinery expenditures should amount to about $90 million in 1977. Another $45 million is planned for the Metals Division, including $32 million for the further development of the second underground mine and expansion of the concentrator.

The 1977 budget for exploration amounts to $31 million, not including administrative expense, up about 15% from the amount spent last year. Oil and gas expenditures are planned at $23 million and minerals exploration at $8 million.

The balance of the planned 1977 capital expenditures are for normal operating requirements, including $11 million for the Industrial Chemicals Division and approximately $9 million for the Agricultural Chemicals Division.

Sale of Preferred Stock

The company sold $150 million worth of preferred stock in December. Two million shares of convertible cumulative preferred stock were sold through a group of United States and Canadian underwriters at $50 per share.

The preferred stock issue was rated a/A by Moody's and Standard and Poor's. An additional one million shares were sold to Canada Development Corporation at the public offering price but without deductions for underwriting commissions. Canada Development Corporation through a subsidiary held approximately 30.1% of Texasgulf Inc.'s common stock at year end.

Each share of preferred stock has one vote, with special voting privileges under certain circumstances, and is entitled to receive, when declared by the Board of Directors, prior to the payment of dividends on the common stock, dividends at the rate of $3.00 per annum. Dividends are cumulative and are payable quarterly on March 15, June 15, September 15 and December 15 in each year. The shares are convertible into common shares at any time at a rate of approximately 1.5936 common shares for each preferred share. The preferred shares are redeemable by the company on notice at any time at the redemption price of $50 per share plus declining premiums from 1977 through 1986 and without premiums thereafter.

The issue increased the financial strength of the company and gives it greater flexibility for additional financing that may be required in the future. As a result the company's long term debt at year end amounted to 33.5% of stockholders' equity.

Financing

During 1976, the company availed itself of external funds from five different sources, including the sale of the preferred stock, to add to internally generated funds to provide for the substantial capital expenditure programs for diversification and expansion. In March, 1976 $11.65 million was received under delayed delivery contracts of the 9⅜% debentures sold in December, 1975. The company is required to make annual sinking fund payments sufficient to redeem $8,250,000 principal amount of debentures for the years 1986 to 1999 and a final payment of $9,500,000 in the year 2000.

In June, Texasgulf Canada Ltd., a wholly-owned subsidiary, sold $50 million (Canadian) of debt securities in the international market. The offering consisted of $25 million (Canadian) of 9½% notes due 1982 and $25 million (Canadian) of 10% debentures due 1986. The notes are not subject to a sinking fund. The debentures are subject to annual sinking fund payments of $1,250,000 (Canadian) for the years 1978 through 1985 with a final repayment of $15,000,000 (Canadian) in 1986. The notes and debentures are guaranteed by the company. The proceeds were used to prepay a portion of the outstanding Canadian dollar bank term notes. These bank term notes had final maturities in 1979. The resulting borrowing and repayment thus extended the maturity of Canadian dollar debt. The balance of the Canadian dollar bank term notes was repaid during the year with a final prepayment in December, 1976 from the proceeds of the sale of the preferred stock. Interest rates on the bank term notes averaged 10.6% in 1976.

The company has a $250 million bank credit and term loan agreement with 16 banks, in both New York and areas in which the company operates. The loan agreement permits prepayments at any time and reborrowings during the first three years. During that period the unused portion is subject to a commitment fee of .50% annually. Repayments will be made in seven semi-annual installments beginning March 31, 1980 with a final maturity on March 31, 1983. Interest will be at the minimum commercial lending rate of the lead bank for the first two years, plus a premium of .25% for the third year and a premium of .40% thereafter.

During 1976 borrowings reached a high of $165 million in December. A portion of the proceeds from the sale of the new preferred stock was used to repay $125 million, leaving a balance at year end of $40 million. The overall interest charged on this loan during 1976 averaged 6.8% and was at the rate of 6% at December 31, 1976.

During 1976 the company also made temporary borrowings to a peak of $15 million under bank lines of credit. Repayments were made from proceeds of borrowings under the bank credit and term loan agreement. No borrowings under bank lines of credit were outstanding at year end and interest on these borrowings averaged 6.9% in 1976.

The company's loan agreements limit the amount of total funded indebtednesss. At year end the company was permitted additional funded indebtedness of approximately $610 million. This capability for additional financing was greatly increased during the year by additional retained earnings and the addition of the preferred stock to the company's capital structure. Also under these agreements retained earnings at year end were approximately $99 million in excess of amounts restricted for the payment of dividends plus acquisitions for value of the company's shares.

Dividends

During 1976 the company paid quarterly cash dividends on the common stock totaling $36.9 million. Since 1921 the company has paid consecutive quarterly cash dividends amounting to $674.4 million. The current quarterly dividend rate of 30 cents per share has been in effect since the third quarter of 1974 when it was raised from 19 cents per share. Dividends on the preferred shares commenced in 1977 at the rate of $3.00 per share for a total of $9.0 million a year.

Texasgulf Inc. and Subsidiaries

Consolidated Statements of Income

	(amounts in thousands) Year ended December 31 1976	Year ended December 31 1975
Sales	$480,540	$444,645
Royalties, Interest and Other Income	10,102	17,007
	490,642	461,652
Costs and Expenses		
Operating, delivery and other related costs and expenses	321,316	246,652
Exploration	19,399	13,414
Selling, general and administrative	25,774	16,130
Interest	26,989	13,982
Income taxes	34,250	68,250
	427,728	358,428
Net Income	$ 62,914	$103,224
Net Income Per Common Share	$2.05	$3.37
Average Number of Common Shares Outstanding	30,735,287	30,615,846

Consolidated Statements of Retained Earnings

	(amounts in thousands) 1976	1975*
Retained Earnings at January 1	$612,984	$546,505
Net Income	62,914	103,224
Cash Dividends (per common share 1976 $1.20, 1975 $1.20)	36,882	36,745
Retained Earnings at December 31	$639,016	$612,984

*As restated, see note 4.
See accompanying notes to consolidated financial statements.

Texasgulf Inc. and Subsidiaries

Consolidated Balance Sheets

ASSETS

	(amounts in thousands) December 31 1976	December 31 1975*
Current Assets		
Cash	$ 29,892	$ 30,965
Short term investments, at cost which approximates market	—	6,000
Accounts receivable, less allowance of $1,171 in 1976 and $1,070 in 1975	78,977	80,893
Inventories		
Minerals and products	192,508	139,460
Materials and supplies	36,034	33,277
Total Current Assets	337,411	290,595
Investments, Advances and Other Assets		
Securities of and advances to affiliates	32,422	29,241
Recoverable Federal income taxes	12,100	12,100
Notes receivable, advances and other assets	44,871	18,483
	89,393	59,824
Property, Plant and Equipment, at cost		
Lands, contract rights and development	264,090	247,923
Plants, buildings, machinery and equipment	826,108	702,510
	1,090,198	950,433
Less accumulated depreciation and amortization	243,456	224,749
	846,742	725,684
Unproven properties and exploration projects, less reserve for exploration costs of $24,315 in 1976 and $13,285 in 1975	99,056	79,635
	945,798	805,319
	$1,372,602	$1,155,738

*As restated, see note 4.
See accompanying notes to consolidated financial statements.

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31 1976 (amounts in thousands)	December 31 1975* (amounts in thousands)
Current Liabilities		
Current maturities of long term debt	$ 5,396	$ 34,611
Accounts payable and accrued liabilities	64,308	53,402
Income taxes payable	14,839	15,577
Deferred income taxes applicable to current assets	8,700	8,690
Total Current Liabilities	93,243	112,280
Income Taxes Not Currently Payable	9,400	9,250
Long Term Debt, less current maturities	266,176	227,913
Deferred Credit—proceeds from advance gas sales	4,679	7,568
Deferred Income Taxes	203,711	178,793
Stockholders' Equity		
Preferred stock $1 par value—Authorized 5,000,000 shares, issued and outstanding 3,000,000 shares, $3.00 Convertible Cumulative Preferred Stock, Series A	146,927	—
Common stock, without par value—Authorized 45,000,000 shares; issued as follows:		
Issued (see below)	26,175	26,175
Contributed capital	6,379	4,531
Retained earnings	639,016	612,984
	818,497	643,690
Less cost of common stock in treasury	23,104	23,756
Stockholders' Equity	795,393	619,934
	$1,372,602	$1,155,738

	1976	1975
Outstanding	30,779,611	30,672,863
In treasury	3,780,389	3,887,137
Issued	34,560,000	34,560,000

Texasgulf Inc. and Subsidiaries

Consolidated Statements of Changes in Financial Position

	(amounts in thousands) Year ended December 31 1976	Year ended December 31 1975
Funds were provided from		
Net Income	$ 62,914	$103,224
Non-cash charges (credits) to income		
Depreciation and amortization and write-off of exploration costs of prior years	31,012	29,018
Deferred taxes and income taxes not currently payable	25,068	49,605
Equity in net income of affiliates	(3,650)	(5,375)
Other items—net	384	(2,099)
Working capital provided from operations	115,728	174,373
Long term debt borrowing	229,462	129,968
Net proceeds on sale of preferred stock	146,927	—
Short term debt borrowing	—	70,000
Dispositions of property, plant and equipment	14,982	6,901
Decrease in securities of and advances to affiliates	470	9,493
Transfers of common stock under stock plans	2,235	2,153
Increase in accounts payable and accrued liabilities	9,753	12,874
Decrease in accounts receivable	1,916	9,422
Total Funds Provided	521,473	415,184
Funds were required for		
Additions to property, plant and equipment	186,785	258,724
Repayment of short term debt	—	70,000
Repayment of long term debt	221,106	23,280
Dividends	36,882	36,745
Increase in inventories	55,805	74,414
Increase (decrease) in notes, advances and other assets	27,240	(1,854)
Decrease in taxes payable and deferred income taxes applicable to current assets	728	55,676
Total Funds Required	528,546	516,985
Resulting in a decrease in cash and short term investments	(7,073)	(101,801)
Cash and short term investments		
Beginning of year	36,965	138,766
End of year	$ 29,892	$ 36,965

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1. Summary of Accounting Policies

A. Principles of Consolidation. The consolidated financial statements include the accounts of the company and all of its subsidiaries. All significant intercompany balances and transactions of the consolidated companies are eliminated. The investments in affiliates (20% to 50% owned) are carried on the equity basis.

For information pertaining to the geographic distribution of the company's net assets reference is made to the fifth paragraph in the Financial Review section of this report.

For information pertaining to unaudited quarterly financial highlights reference is made to the tabulation in the Financial Review.

B. Inventories. Inventories of minerals above ground and products are stated at the lower of average cost or market. Materials and supplies are stated at average cost.

C. Exploration. All expenditures on major exploration projects are capitalized pending determination of commercially exploitable reserves. The company accumulates costs initially in connection with broad areas of interest prior to property acquisition; thereafter, costs are allocated in the case of oil and gas exploration including all exploratory wells to leases acquired or concessions granted and in the case of minerals exploration to properties acquired and ultimately to specific anomalies. Costs of dry holes on producing oil and gas properties are charged to expense as incurred. Intangible oil and gas drilling costs on successful wells are capitalized, and the tax effects resulting from the deduction of such intangible drilling costs for current income tax purposes are deferred. Major projects determined to be commercially unsuccessful are charged to expense, and reserves are provided for all expenditures on minor projects. General administrative expense relating to overall exploration efforts is charged to operations as incurred.

D. Development Costs. Expenditures necessary to prepare an orebody for production are capitalized prior to initial production. Thereafter expenditures of a similar nature are charged to operations, except for major expenditures which are expected to benefit several years production which are capitalized.

E. Depreciation and Amortization. The company's policy is to depreciate and amortize producing property, plant, and equipment over the estimated lives of such assets by the application of the unit-of-production method in the case of mine properties and facilities and the straight-line method in the case of manufacturing facilities. In arriving at rates under the unit-of-production method, commercially recoverable product reserves are estimated by the company's geologists and engineers. Such estimates are revised as data becomes available to warrant revision. Under the straight-line method, the annual rates applied to the cost of the assets give effect to wear and tear, deterioration from natural causes and normal obsolescence.

F. Income Tax. The company has deferred to future periods the income tax effect resulting from timing differences between financial statement pretax income and taxable income. The deferred tax on these differences pertains principally to depreciable plant and equipment, development costs incurred on several properties, taxes and royalties included in inventories, exploration costs and Canadian Federal Branch tax.

Investment tax credits utilized are deferred and amortized over the estimated lives of the related assets. (See also note 4.)

G. Pension Plan. The company has a pension plan covering substantially all employees, including employees in foreign countries. The policy is to fund pension cost accrued. (See also note 8.)

2. The aggregate exchange gain or (loss) included in determining net income amounted to ($2,539,000) in 1976 and $2,480,000 in 1975.

3. Depreciation and amortization of producing property, plant and equipment was $28,758,000 in 1976 compared with $25,495,000 in 1975.

4. Income tax expense comprises:

	(amounts in thousands)		
	U.S. Federal	Foreign	Total
1976			
Current taxes	$(1,100)	$10,300	$ 9,200
Deferred taxes	(3,250)	28,300	25,050
	$(4,350)	$38,600	$34,250
1975			
Current taxes	$ 150	$15,700	$15,850
Deferred taxes	18,150	34,250	52,400
	$18,300	$49,950	$68,250

Deferred tax expense results from timing differences in the recognition of transactions for tax returns and financial statement purposes. The nature and the tax

effect of these differences in 1976 and 1975 were as follows:

	(amounts in thousands)	
	1976	1975
Excess of tax over book depreciation:		
U.S.	$ (750)	$ 6,350
Foreign	23,150	24,650
Deferred mine development costs:		
U.S.	—	2,900
Foreign	(3,900)	4,900
Exploration costs less than tax deductions	1,500	2,200
Deferred intangible drilling costs	50	2,700
Deferred Canadian Federal Branch tax	4,650	2,550
Investment credit benefit deferred (net of amortization $850 in 1976 and $717 in 1975)	2,200	1,100
Taxes and royalties	(500)	1,950
Foreign currency translation	(200)	900
Other	(1,150)	2,200
	$25,050	$52,400

Total tax expense is less than the amount which would be provided by applying the U.S. Federal income tax of 48% for the following reasons:

	1976	1975
U.S. Federal income tax statutory rate	48.0%	48.0%
Canadian income subject to Canadian income taxes	(9.0)	(3.4)
U.S. Depletion	—	(5.7)
Other	(3.8)	.9
	35.2%	39.8%

No U.S. Federal income tax was provided on Canadian source income since the foreign tax credits arising from the Canadian taxes paid on this income are sufficient to satisfy the U.S. Federal income tax liabilities generated by this income after giving consideration to U.S. depletion deductions and U.S. Federal income tax deductions available to Western Hemisphere Trade Corporations (WHTC). Because of this and the higher Canadian income tax rates, the company expects to generate excess foreign tax credits which may not be utilized.

At December 31, 1976 Texasgulf had investment tax credit carryforwards of approximately $22,500,000 available as credits against future U.S. Federal income taxes. Of this amount $1,200,000 expires in 1981, $8,900,000 expires in 1982 and $11,850,000 expires in 1983. The extent of utilization of these investment tax credit carryforwards is uncertain at this time.

The company's operations in Canada are subject to the Canadian Federal Branch tax. However, due to statutory provisions the time for payment of this tax may be deferred to future years. Accordingly amounts accrued relative to this tax have been classified as a non-current liability.

The Internal Revenue Service has examined the company's tax returns for the years 1958 through 1965. A revenue agent's report previously received for the period 1966 through 1968 is now in the process of being amended by the Service. Concurrently, the returns filed for the years 1969 through 1971 are being examined. The Service has challenged or is proposing adjustments to the company's treatment of several items in the tax returns filed for the years 1958 through 1971.

On December 28, 1976, the United States Tax Court decided that the company had deficiencies in income taxes due for the years 1958, 1959 and 1960. The decision is subject to appeal by either party. If the government appeals, the company may cross-appeal on the issues resolved against the company by the Tax Court. As a result of this decision, previously reported net income for 1958, 1959 and 1960 has been reduced for deficiencies and accumulated interest of $2,741,000 or $.09 per share, $590,000 or $.02 per share and $4,862,000 or $.16 per share respectively.

The most significant of the remaining issues raised pertains to the company's treatment of taxes paid to Ontario pursuant to The Ontario Mining Tax Act on income from the Kidd Creek Mine. The company has claimed this tax as a credit against U.S. income taxes. On audit, the Service asserted that the tax should be a deduction in arriving at U.S. taxable income for the years 1967 through 1971. This assertion has been supported by a technical advice issued by the National Office of the Service in December 1976. The ultimate determination of this issue will also apply to the period 1972 through April 9, 1974. The company has been advised by Messrs. Miller & Chevalier, its counsel on this issue, that with respect to the period prior to April 10, 1974 the company has a meritorious position and that there is a substantial chance it will prevail in its contention that the Ontario mining tax is eligible for foreign tax credit.

In 1975 The Ontario Mining Tax Act was amended, effective April 10, 1974, and regulations under the amended Act were published. The years 1974 through 1976 have not been audited by the Internal Revenue Service, and a ruling has not been requested from the Service with respect to the amended Act. As to the period commencing April 10, 1974, Messrs. Miller & Chevalier have advised that they expect the company to ultimately prevail in its contention that the Ontario mining tax, as amended, is eligible for foreign tax credit.

Should the Service prevail with respect to the unresolved issues, including the ineligibility for credit of the Ontario mining tax through April 9, 1974, that tax being considered clearly eligible for credit after that date by

the company, additional U.S. Federal income taxes and interest would be paid in the amount of $15,200,000 after utilization of approximately $17,300,000 of the $22,500,000 investment tax credit carryforwards discussed previously in this note and recoverable Federal income taxes would be reduced approximately $3,800,000. Additionally net assets would be reduced $22,450,000 after applicable reductions of deferred income taxes provided in prior years and approximately $14,000,000 of the investment tax credit carryforwards utilized would be credited to income in future years.

The company intends to contest all of the major issues referred to above and expects to prevail.

5. Long Term Debt

	(amounts in thousands) Dec. 31, 1976	Dec. 31, 1975
Canadian dollar term notes, due 1979	$ —	$ 79,805
9½% Canadian dollar notes, due 1982	24,790	—
Credit and term loan, due 1983	40,000	—
10% Canadian dollar debentures, due 1986	24,790	—
5.75% notes, due 1986	13,000	14,250
4.70% notes, due 1989	35,750	38,500
9⅜% debentures, due 2000	125,000	113,350
Other	8,242	16,619
	271,572	262,524
Less current maturities	5,396	34,611
	$266,176	$227,913

The 5.75% notes of a subsidiary due 1986 require semi-annual payments as follows: $625,000 in 1977 through 1985 and $875,000 in 1986. The 4.70% notes due 1989 require annual payments totaling $2,750,000.

Other notes payable include debt related to land acquisitions in North Carolina and advances received in connection with oil and gas exploration properties offshore Louisiana. Interest rates ranged up to 8% at December 31, 1976 with maturities through 1989. The balance of these notes at December 31, 1976 amounted to $8,242,000 of which $1,396,000 will be repaid in 1977.

Payments totaling $221,106,000 were made on long term debt during 1976 primarily out of the proceeds from the sale of preferred stock and Euro-Canadian notes and debentures.

Long term debt at December 31, 1976 matures through 1981 as follows:

	(amounts in thousands)
1977	$ 5,396
1978	$ 6,519
1979	$ 6,381
1980	$18,043
1981	$19,606

At the end of 1976 the company had a contingent obligation as guarantor of 35 percent of $47,500,000 borrowed from banks by an affiliate and used in construction of the Robe River iron ore project. The company is also the guarantor of 35 percent of the affiliate's borrowing under a credit agreement with the Export-Import Bank of the United States up to $5,500,000, which approximates the amount borrowed as of December 31, 1976.

There are no agreements with any bank, either written or implied, that the company is to maintain any demand deposit in a determined amount which would constitute support for existing borrowing arrangements, including both outstanding borrowings and the assurance of future credit availability. However, it is the company's internal financial policy to maintain demand deposit balances sufficient in the company's judgment to insure the continued availability of credit as the company may require.

For certain additional information regarding long term debt reference is made to "Financing" in the Financial Review section of this report.

6. On December 15, 1976, the company issued 3 million shares of $3.00 Convertible Cumulative Preferred Stock, Series A. The stockholders of the preferred shares are entitled to receive a dividend, if and when declared by the Board of Directors, prior to the payment of dividends on the common stock. Dividends on the preferred stock are cumulative from the date of issuance and are payable quarterly commencing March 15, 1977. The preferred shares are redeemable at $50 per share (which is the liquidation preference value) plus accrued dividends. If the shares are redeemed prior to December 15, 1986, a premium of $3.00 per share in 1977 and 1978, $2.25 per share in 1979 and 1980, $1.50 per share in 1981 and 1982, $1.00 per share in 1983 and 1984 and $.50 per share in 1985 and 1986 is payable. At the conversion price of $31⅜ per share of common stock, each share of preferred stock is convertible into approximately 1.5936 shares of common stock. As of December 31, 1976, 4,780,800 shares of common stock were reserved for conversion of preferred stock.

7. Under a stock option plan approved by the stockholders in April 1961 options were granted to officers and employees of the company to purchase shares of the company's stock. Such options became exercisable, as to 40% eighteen months after date of grant, as to 70% three years after date of grant, and as to 100% four years after date of grant and expired five years after date of grant. The plan was terminated during 1971 as to the grant of additional options.

Under a stock option plan approved by the stockholders in April 1972 options may be granted to officers

and key employees of the company to purchase up to 750,000 shares. Options cannot be granted to non-officer directors. In addition to granting "qualified stock options" which expire five years after date of grant, the company may also grant "non-qualified stock options" whose term shall not exceed ten years. Options granted in 1973 under the Plan were "qualified stock options" and were to become exercisable in steps and over time periods similar to those granted under the 1961 plan. These options have been amended to become fully exercisable after two years from date of grant. Some of the options granted in 1974 and all of the options granted in 1975 were granted as "qualified stock options." All become exercisable as to 40% of the total granted one year from date of grant, as to 70% two years after date of grant, and as to 100% three years after date of grant.

Under the options granted during 1974 optionees who are not officers or directors may elect at any time during the exercisable period to receive from the company the excess of the then fair market value of the shares exercisable over the option price. The Board of Directors has retained the power to cancel or suspend this right of election. The company will satisfy any liability arising from such election in either cash or capital stock of the company or a combination of both at the election of the optionee. Under the options granted during 1975, the right to elect to receive from the company the excess of fair market value of the shares exercisable over the option price was restricted to employees who were not at the time of grant, and who do not at any time prior to the exercise of such right become residents or citizens of the United States, and such rights could not be exercised by an officer or director of the company.

Options granted in July 1976 are nonqualified options which expire ten years from date of grant and become exercisable as to 40% of the total granted one year from date of grant, as to 70% two years after date of grant, and as to 100% three years after date of grant. These options contain the right to elect to receive from the company the excess of fair market value over the option price, but the right is not limited to non-U.S. employees and non-officers as was the similar right in the 1975 options. Officers and directors will not be entitled to obtain the excess in the form of a cash payment, however, unless such payment is made in compliance with rules of the U.S. Securities and Exchange Commission.

Outstanding unexercised options held by certain officers on July 8, 1976 were amended on that date, subject to the consent of the individual officer, to add the right to cancel any or all of such options, when exercisable, in return for the excess of fair market value over the exercise price, subject to the proviso with respect to cash payments which is stated in the options granted in July 1976. Outstanding unexercised options held by certain other offficers were similarly amended on February 3, 1977.

Except as related to the election discussed in the preceding paragraphs no accounting entries are made until such time as an option is exercised. In the case of options granted which have this right of election the estimated costs to the company relative to the election are accrued and charged to operations over the option period. The excess of proceeds and accrued charges over the cost of shares transferred from the treasury is credited to contributed capital.

	1976		1975	
During the Year Options:	Shares	Option Price Per Share	Shares	Option Price Per Share
Were granted .	142,150	\$34¼	151,500	\$33$\frac{5}{16}$
Became exercisable .	96,390	27$\frac{9}{16}$-33$\frac{5}{16}$	243,930	17¼ -27$\frac{9}{16}$
Were cancelled or expired . .	6,670	27$\frac{9}{16}$-34¼	2,000	27$\frac{9}{16}$ -33$\frac{5}{16}$
Were exercised	68,110	20 -27$\frac{9}{16}$	101,825	15$\frac{15}{16}$-22¾

At December 31, 1976 there were 513,370 shares under option 245,780 shares of which were exercisable at prices ranging from \$22¾ per share to \$33$\frac{5}{16}$ per share.

Under a Career Incentive Stock Plan approved by stockholders, awards not to exceed 500,000 shares may be made out of treasury stock to officers and other key employees of the company and its subsidiaries. In 1976 awards of 61,700 shares were made, awards of 2,580 shares previously granted were cancelled, 500 shares of the 1976 awards were cancelled and 30,120 shares were transferred to the employees under the plan. In 1975, awards of 80,850 shares were made, awards of 1,920 shares previously granted were cancelled and 17,770 shares were transferred to the employees under the plan. Awards outstanding at December 31, 1976 and December 31, 1975 amounted to 221,405 shares and 192,905 shares respectively. An amount equal to the fair market value of the shares at the time of award is being charged to income over the period in which the awards will be earned. Accordingly, \$1,273,081 was charged to income during 1976 (\$863,000 in 1975). Shares are transferred 20% upon the second anniversary of the award and each anniversary thereafter.

The shares reserved for issuance under the above plans amounted to 1,084,990 at December 31, 1976 and 937,550 at December 31, 1975.

The Employee Shareownership Plan adopted in 1974 provides for initial and subsequent distributions of the company's common shares to all full time employees except senior officers based on years of service with the company.

Beginning in 1975, every employee on his first anniversary and on each fifth anniversary of employment will receive one share of stock for each year of service. In the initial distribution over 41,400 shares were awarded. It is expected that approximately 48,000 shares will be distributed to employees under the plan over the next five years. During 1976 and 1975, 8,484 and 4,696 shares respectively, were distributed.

In 1976 contributed capital increased by $1,848,000 ($1,537,000 in 1975) and treasury stock decreased by $652,000 ($759,000 in 1975) due to the transfer of common stock under the stock option, career incentive, and the employee shareownership plans.

8. Pension expense for 1976 and 1975 was $8,788,000 and $7,145,000, respectively. The increase in pension expense in 1976 is attributable principally to the overall increase in wages paid reflecting both higher salaries and an increase in the number of employees.

At December 31, 1976 and 1975 the market value of Plan assets exceeded the actuarially computed value of vested benefits.

9. Rent expense amounted to $10,136,000 in 1976 and $9,295,000 in 1975 after receipts for subleases of $307,000 and $331,000, respectively. Of these amounts $3,882,000 in 1976 and $4,207,000 in 1975 pertained to tankers used in the transportation of liquid sulphur and were determined on the basis of tanker usage.

The minimal rental commitments under all noncancellable leases as of December 31, 1976 were as follows:

(amounts in thousands)

	1977	1978	1979	1980	1981
Liquid sulphur tankers	$1,512	$1,470	$1,428	$1,428	$ —
Rail cars and equipment	1,506	1,321	1,131	770	453
Office space	1,781	1,881	1,795	1,773	1,776
Other	59	62	17	2	2
	$4,858	$4,734	$4,371	$3,973	$2,231

(amounts in thousands)

	1982 through 1986	1987 through 1991	1992 through 1996	Remainder
Liquid sulphur tankers	$ —	$ —	$ —	$ —
Rail cars and equipment	1,322	—	—	—
Office space	6,404	5,182	4,785	239
Other	1	1	1	1
	$7,727	$5,183	$4,786	$240

The above amounts are net of rentals to be received on subleases of office space of $188,000 in 1977, $156,000 annually in 1978 through 1981, $686,000 for the years 1982 through 1986 and $150,000 for the years 1987 through 1991. There are no rentals after 1991.

The minimal rental commitments for noncapitalized financing leases consist of the amounts reported above for "Liquid sulphur tankers" and "Rail cars and equipment."

The effect on net income if all noncapitalized financing leases were capitalized, related assets were amortized on a straight-line basis, and interest costs were accrued on the basis of the outstanding lease liability would not be material.

10. The company is engaged in various major construction and plant expansion programs which in the aggregate are expected to cost approximately $445,000,000 of which approximately $107,000,000 had been spent through December 31, 1976.

11. On November 12, 1975, the government of Saskatchewan announced a plan to acquire the assets of some or all of the producing potash mines in the province, and legislation has been enacted to provide for expropriation of mines which the government wants to buy but which the owners will not sell through negotiation. A board of arbitrators would determine a "fair and equitable price" in such a case and either party could appeal from the decision of the board to the courts. For 1976 the company's sales of potash produced from Allan Potash Mines amounted to approximately 4% of the company's consolidated sales. The company's net investment in Allan Potash Mines is not material in relation to total consolidated net assets.

12. Unaudited Current Replacement Cost Information

Securities and Exchange Commission Rule 3-17 requires that certain information pertaining to current replacement cost for productive capacity, inventories and cost of sales be included in Form 10-K reports filed with the commission. An exemption from this requirement was granted for 1976 for mineral resource assets. Since the company would be reporting current replacement cost information on a very minor portion of its productive capacity an exemption was requested and obtained from the SEC for these items. Current replacement cost information pertaining to inventories and cost of sales is contained in the company's 1976 Form 10-K report filed with the SEC.

Accountants' Report

PEAT, MARWICK, MITCHELL & CO.
CERTIFIED PUBLIC ACCOUNTANTS
345 PARK AVENUE
NEW YORK, NEW YORK 10022

To The Stockholders of Texasgulf Inc.

We have examined the consolidated balance sheets of Texasgulf Inc. and subsidiaries as of December 31, 1976 and 1975 and the related consolidated statements of income, retained earnings and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

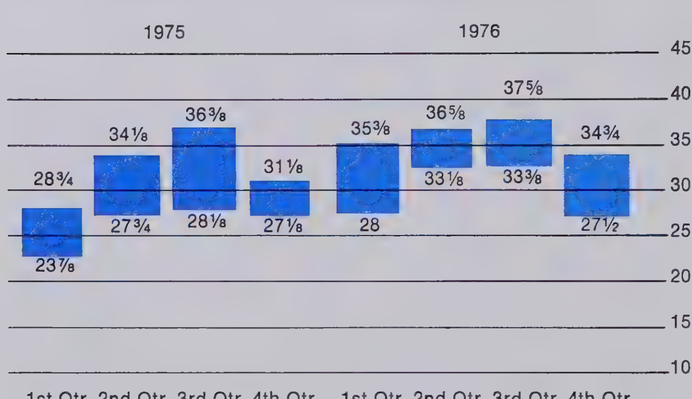
In our opinion, the aforementioned consolidated financial statements present fairly the financial position of Texasgulf Inc. and subsidiaries at December 31, 1976 and 1975 and the results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Peat, Marwick, Mitchell & Co.

February 17, 1977

Preferred Stock
During 1976 Texasgulf's preferred stock, issued on December 15, traded over the counter between 49¾ and 51¼. The preferred stock commenced trading on the New York, Montreal and Toronto Stock Exchanges in January, 1977.

High-Low Market Prices Texasgulf Common Stock



Dividends Paid per Share

1975 1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	1976 1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.
$.30	.30	.30	.30	$.30	.30	.30	.30

Prices shown are from the New York Stock Exchange where Texasgulf's shares are listed under the symbol Tg. They are also listed on the Montreal and Toronto Stock Exchanges under the symbol TXG.

Texasgulf Inc. and Subsidiaries

Ten Year Financial Summary

Income (in millions of dollars)

- Sales . . . . .
- Royalties, interest and other income . . . . .
- Operating, delivery and other related costs and expenses, including exploration . . . . .
- Selling, general and administrative expenses . . . . .
- Interest expense . . . . .
- Income taxes . . . . .
- Income before extraordinary charge . . . . .
- Extraordinary charge net of applicable income taxes
- Net income . . . . .

Financial Position (in millions of dollars)

- Current assets . . . . .
- Current liabilities* . . . . .
- Working capital* . . . . .
- Mineral and product inventories . . . . .
- Property, plant and equipment—net . . . . .
- Total Assets . . . . .
- Long term debt, less current maturities . . . . .
- Stockholders' Equity* . . . . .

Other Data**

Per Share of Common Stock—

- Income before extraordinary charge . . . . .
- Extraordinary charge, net of tax . . . . .
- Net income . . . . .
- Dividends . . . . .
- Market price range per common share . . . . .

Number of shareowners of record Dec. 31 . . . . .

Average number of common shares outstanding (in thousands) . . . . .

*As restated, see note 4.
**Adjusted for three-for-one stock split at May 6, 1968.

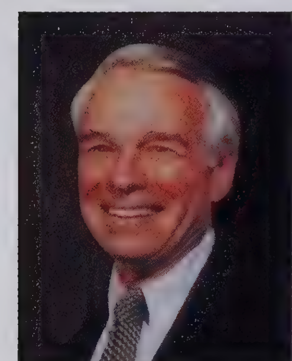
1976	1975	1974	1973	1972	1971	1970	1969	1968	1967
$480.5	$444.6	$568.5	$363.8	$270.5	$217.7	$219.5	$239.3	$266.0	$222.7
10.1	17.0	15.3	5.3	2.9	3.2	10.9	10.8	7.9	3.8
340.7	260.1	281.6	220.7	195.2	159.6	143.1	147.6	155.9	125.9
25.8	16.1	18.7	15.0	14.0	13.6	11.7	11.8	10.4	10.1
27.0	14.0	14.4	12.6	12.0	8.8	7.5	6.9	6.6	6.8
34.2	68.2	121.8	46.8	22.0	14.0	22.3	22.3	29.5	20.7
62.9	103.2	147.3	74.0	30.2	24.9	45.8	61.5	71.5	63.0
—	—	—	—	—	(4.7)	—	—	—	—
62.9	103.2	147.3	74.0	30.2	20.2	45.8	61.5	71.5	63.0
337.4	290.6	327.4	182.1	156.0	144.7	182.3	226.3	199.6	92.8
93.2	112.3	143.6	76.1	70.5	65.8	102.8	61.6	57.1	33.9
244.2	178.3	183.8	106.0	85.5	78.9	79.5	164.7	142.5	58.9
192.5	139.5	74.1	63.6	70.5	67.8	57.9	49.2	37.6	29.0
945.8	805.3	583.1	530.5	492.2	462.4	419.4	310.2	300.2	295.2
1,372.6	1,155.7	976.9	776.0	711.4	670.0	647.1	576.3	529.0	418.1
266.2	227.9	134.7	157.2	173.4	169.1	119.9	117.3	125.5	115.0
795.4	619.9	551.2	431.5	376.4	364.2	362.2	334.6	289.7	227.4
2.05	3.37	4.83	2.43	.99	.82	1.51	2.02	2.36	2.08
—	—	—	—	—	(.15)	—	—	—	—
2.05	3.37	4.83	2.43	.99	.67	1.51	2.02	2.36	2.08
1.20	1.20	.98	.64	.60	.60	.60	.55	.33⅓	.13⅓
37⅝-27½	36⅜-23⅞	36⅝-20⅛	33⅛-17⅛	20¾-14¾	24⅜-11¼	23¼-13	39⅞-19⅛	49⅞-29	53⅓-32¼
62,289	64,534	66,881	64,841	80,247	82,511	79,728	72,149	62,001	48,529
30,735	30,616	30,483	30,417	30,396	30,386	30,386	30,384	30,324	30,223

Officers


H. V. W. Donohoo


P. Ray Clarke

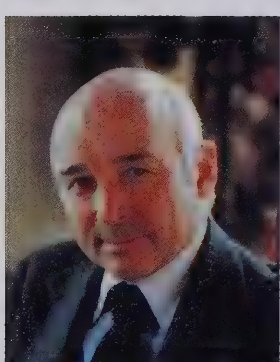

James W. Estep


David M. Crawford


Charles F. Drees


David C. Edmiston, Jr.


Dr. Gino P. Giusti


John W. Hall, Jr.


Earl L. Huntington

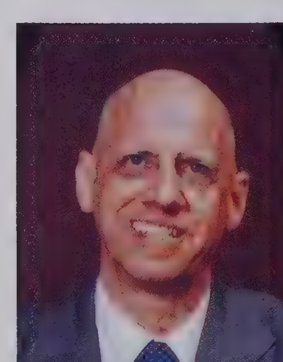

Kenneth J. Kutz


Gordon N. McKee, Jr.


Walter F. Meyer


Dr. Leo J. Miller


Frank R. Moulton, Jr.


Dr. James R. West

Officers and Staff

Charles F. Fogarty
Chairman of the Board
and Chief Executive Officer

Richard D. Mollison
President

H. V. W. Donohoo
Executive Vice President

P. Ray Clarke
Senior Vice President
Metals Division
Timmins, Ontario

James W. Estep
Senior Vice President
Industrial Chemicals
Division
Englewood, Colorado

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Secretary

Charles F. Drees
Vice President
Sulphur Operations
Newgulf, Texas

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Vice President
Agricultural Chemicals
Division
Raleigh, North Carolina

Gino P. Giusti
Vice President
Employee Relations
and Administration

John W. Hall, Jr.
Vice President
Marketing

Earl L. Huntington
Vice President
and General Counsel

Kenneth J. Kutz
Vice President
International Division

Gordon N. McKee, Jr.
Vice President
and Treasurer

Walter F. Meyer
Vice President
and Controller

Leo J. Miller
Vice President
Minerals Exploration
Division
Golden, Colorado

Frank R. Moulton, Jr.
Vice President
and General Manager
Oil and Gas Division
Houston, Texas

James R. West
Vice President
Research, Engineering
and Construction

Administrative

Administrative	Charles J. Gillem	Corporate Insurance and Office Manager
	J. Morgan Gregory	Aviation Manager
Data Processing	**Raleigh, North Carolina**	
	John G. Stengel	Manager
	William F. Hodge, II	Computer Operations Supervisor
	Francis J. Moore	Systems and Programming Supervisor
	David L. Rutledge	Systems and Programming Supervisor
	P. Eugene Truelove	Technical Services Supervisor
Employee Relations	F. Wayne White	Manager
	Thomas G. Downing	Assistant Manager
	William O. Britt	Compensation Manager
Finance	John J. Burke	Assistant Credit Manager
	James A. Campbell	Assistant Controller, Taxes
	James J. Finn	Assistant Controller, General Accounting
	James P. Finnigan	Budget Manager
	Robert P. Hedley	Assistant Treasurer
	John E. Johnson	Assistant Treasurer
	Leroy T. Kling, Jr.	Assistant Manager, General Accounting
	Daniel H. Payne	Assistant Manager, Taxes
	William F. Seamon	Credit Manager
	John T. Thornton	Assistant Controller, Accounting Policy
Internal Audits	John T. Duffy	Manager
	Michael Kudlick	Assistant Manager
Law	Joseph C. Brown	Assistant General Counsel and Assistant Secretary, Houston
	Charles W. Wilder	Assistant General Counsel and Assistant Secretary
	Meredith P. Crawford, Jr.	Senior Counsel and Assistant Secretary
	Clyde D. Ford	Senior Counsel, Houston
	George W. Hugo	Senior Counsel, Houston
	Lucius W. Pullen	Senior Counsel, Raleigh
	Reginald A. Willoughby	Senior Counsel, Toronto, Ontario

Unless otherwise indicated location is Stamford, Connecticut.

Marketing

Advertising	Charles S. Bryk	Manager
	William J. Cotter	Assistant Manager
Marketing Research	Paul A. Rittenhouse	Manager
	James A. Orser	Assistant Manager
Transportation and Distribution	**Houston, Texas**	
	Ted G. White	General Manager
	Wilson R. Atwood	Rail Equipment Manager

Public Relations

	William D. Askin	Assistant Manager, Public Relations, and Editor, Triangle Magazine

Research, Engineering and Construction

	Harry G. Bocckino	Research and Development Manager, Golden
	Robert J. Boyle	Engineering and Construction Manager
	Philip D. Bush	Engineering and Construction Project Manager, Cerro Colorado Copper
	Jack H. McLellan	Special Projects Manager
	Alan G. Perry	Engineering and Construction Project Manager, Kidd Creek Copper Smelter and Refinery, Toronto

Operations

Agricultural Chemicals Division

	Raleigh, North Carolina	
	John H. Wiley	Marketing Manager
	Scott F. Stidham	Administrative Manager
	Jerome F. Brim	Sales Manager, Feed Products, Weeping Water, Nebraska
	June W. Crawford	Engineering Manager
	Robert J. Forest	Dicalcium Phosphate Operations Manager, Weeping Water
	Robert B. Gibbs	Domestic Sales Manager
	John T. Gough	Billing Supervisor
	Anderson O. Harwell	Customer Services Manager
	Thomas M. McNally, Jr.	Division Accountant
	Jack L. Milani, Jr.	Market Planning Manager
	Thomas L. Perkins	International Sales Manager
	Roy F. Underwood	Sales Systems Manager
	Maurice S. Weber	Transportation Manager
	James A. L. White	General Manager, Potash Operations, Englewood
Phosphate	**Aurora, North Carolina**	
	James R. Paden	General Manager
	Thomas J. Wright	Assistant General Manager
	Cameron W. Albin	Acid Plants Superintendent
	Donald L. Bennett	Distribution Supervisor
	Walter E. Bondurant	Super Acid and Tank Farm Superintendent
	Clyde W. Davis, Jr.	Dredging and Reclamation Superintendent
	John M. Fowler	Employee and Public Relations Manager
	Harvey A. Franz, Jr.	Chief Accountant
	Mitchell T. Harris	Maintenance Superintendent, Mine
	John D. Heard	Administrative Manager
	John M. Hird	Mine Superintendent
	Delbert R. Jones, Jr.	Purchasing Agent
	H. Wendell McGee	Fertilizer Plants Superintendent
	Carroll J. Moore	Information Services Supervisor
	James N. Richardson	Mill Superintendent
	Frank H. Robinson	Chemical Plants Manager
	Calvin J. Staffa	Chief Engineer
	Julius M. Taylor	Maintenance Superintendent, Chemical Plants
	Guy W. Whitaker	Laboratories and Environmental Control Superintendent
	Brooks M. Whitehurst	Engineering Services Manager
Potash	**Moab, Utah**	
	Rudolph S. Higgins	Manager
	Paul Arthur	Chief Accountant
	Albert K. Gentry	General Superintendent
	Clark H. Huff	Development and Planning Supervisor
	Robert E. MacAdams	Employee Relations Supervisor
	Charles L. Squires	Safety and Environmental Control Supervisor

Forest Products Division

Johnsonburg, Pennsylvania

Arthur L. Bennett	Manager

Industrial Chemicals Division

Sulphur

Houston, Texas

Frank J. Claydon, Jr.	General Manager
Walter B. Gillette	Assistant Sales Manager, New York
Earl W. Hanna	Assistant to the General Manager
Dennis B. Kanten	Assistant Sales Manager, Calgary
William F. Mason	Sales Manager
Robert L. Vordick	Distribution Manager

Newgulf, Texas—Frasch Sulphur

Byron N. Soderman	Manager
Douglas C. Anders	Accounting Manager
Kenneth D. Bishop	Maintenance Manager
Murray O. Clapp	Traffic Manager
Ernest M. Dunn	Mine Manager, Moss Bluff, Texas
Kenneth O. Gilbert	Purchasing & Warehousing Manager
Wayne Herrington	Engineering Manager
Edmond Herschap, Jr.	Employee Relations Manager
Leonard M. Mason	Quality Control Manager
Alec C. Mayfield	Power Plant Manager
Royce L. Northcutt	Field Manager
Lloyd L. O'Neal, Jr.	Mine Manager, Bully Camp, Louisiana
George O. Richardson	Mine Manager, Comanche Creek, Texas
Noe Sonnier	Operations Manager, Beaumont
Raymond J. Staffa	Administrative Assistant to the Manager
Clinton P. White	Public Relations Manager

Calgary, Alberta—Recovered Sulphur

Frederic J. Ronicker	Manager
Edward W. Plum	Assistant Manager
Donald H. Davies	Plant Superintendent, Okotoks, Alberta
T. Stafford Mosher	Employee Relations and Office Manager
John A. Regehr	Traffic Coordinator
James J. Rennie	Traffic Superintendent, Whitecourt, Alberta
Lucien E. Tremblay	Chief Accountant
Douglas H. Whittaker	Vat Superintendent, Whitecourt

Soda Ash

Granger, Wyoming

Robert E. Clagett	General Manager, Englewood
Paul V. Bethurum	Manager
Richard G. Bryan	Sales Manager, Englewood
Edward H. Conroy	Technical Services Manager
Ronald J. Esling	Purchasing Agent
Ernest P. Flanagan, Jr.	Production Superintendent, Mine
Robert J. Garland	Maintenance Superintendent, Surface
Glen E. Hunter	Maintenance Superintendent, Mine
William H. Johnston	Housing Manager
James A. King	General Superintendent, Surface
John Manyak	Chief Accountant
Donald R. Mobley	Mill Superintendent
Gary C. Pickard	Accounting Supervisor, Englewood
Herbert S. Price	Mine Superintendent
Richard C. Reynolds, Jr.	Employee Relations Superintendent

Caustic Soda-Chlorine Project

Newgulf, Texas

Kenneth D. Bishop	Project Manager

International Division

Kurt O. Linn	Geology Manager
Jackson G. Pinkerton	Administrative Manager
James Saville	Metallurgy Manager
John S. Taylor	Mining Manager

Metals Division	**Toronto, Ontario**	
	Kent D. Hoffman	Marketing Manager
	Bruce W. Gilbert	Sales Manager
	Albert W. Scragg	Accounting Manager
	H. Devon Smith	Public Relations Manager and Toronto Office Manager
	St. Louis, Missouri	
	Howard L. Young	Zinc Metal Sales
	Timmins, Ontario	
	Barton A. Thomson	General Manager
	Michael P. Amsden	Assistant General Manager
	David G. Baskin	Traffic Manager
	J. Eric Belford	Mining Manager
	Donald F. Grenville	Employee Relations and Administrative Manager
	Steven W. Alexanders	Employee Relations Superintendent
	Clarence V. Amyotte	Mine Superintendent, Surface
	Colin Chapman	Concentrator Superintendent
	George C. Coupland	Special Projects Superintendent
	George M. Freeman	Zinc Plant Superintendent
	G. Merle T. Marshall	Engineering Superintendent
	Angelo Matulich	Chief Geologist
	David L. McKay	Mine Superintendent, Underground No. 2 Mine
	William H. Niemi	Traffic Superintendent
	Leonard D. Sanderson	Maintenance Superintendent
	Ronald M. Sweetin	Copper Refinery Superintendent
	Donald G. Treilhard	Copper Smelter Superintendent
	Arthur C. Warren	Chief Accountant
	J. Keith Youngblut	Mine Superintendent, Underground No. 1 Mine
Minerals Exploration Division	**Golden, Colorado**	
	George W. Mannard	Regional Manager, Toronto
	Edward J. Poole	Regional Manager, Johannesburg, South Africa
	Morland E. Smith	Regional Manager, Perth, Australia
	James H. Ogg	Administrative Manager
	George Podolsky	Chief Geophysicist
Oil and Gas Division	**Houston, Texas**	
	Weyman W. Crawford	Assistant General Manager, North America
	Clyde S. Deal	Assistant General Manager, Foreign
	Robert F. Dinnean	Chief Geologist
	David L. Henning	Chief Geophysicist
	Robin L. Lyon	Regional Manager
	Maurice Mazurkewich	Regional Manager, Calgary
	Charles H. Moritz	Division Accountant
	Richard E. Oppel	Regional Manager, Alaska
Subsidiaries		
Pakistani Texasgulf Inc.	James B. West	Vice President, Karachi, Pakistan
Texasgulf Australia Ltd.	Kenneth J. Kutz	President
	Charles E. Brechtel	Vice President, Perth
Texasgulf Canada Ltd.	Richard D. Mollison	President
	P. Ray Clarke	Executive Vice President, Timmins
Texasgulf Export Corporation	Michael C. Hughes	Vice President, London, England
Texasgulf Panama Inc.	Kenneth J. Kutz	President
	Enrique J. Ruiz-Williams	Vice President, Panama City, Panama
Affiliates		
Allan Potash Mines	James A. L. White	Tg Representative, Englewood
Cia. Exploradora del Istmo, S.A. (C.E.D.I.)	Robert M. Stoy	Tg Chief Technical Adviser to C.E.D.I., Texistepec, Mexico
Sulphur Export Corporation	John W. Hall, Jr.	Chairman and Joint Managing Director
	S. Keith Hardwick	Vice President

Texasgulf's board of directors at a meeting in New York. Seated (left to right): Louis R. Desmarais, H. Anthony Hampson, Richard D. Mollison, Dr. Charles F. Fogarty, Claude O. Stephens and Donald B. Smiley. Standing (left to right): John P. Gallagher, John M. Meyer, Jr., Harold Decker, Dr. Guy T. McBride, Jr., Allan Shivers and Richard M. Thomson.

Directors

Harold Decker
Director Emeritus of Halliburton Company, Director of Temple-Eastex Incorporated and Director of Earth Resources Company
Houston, Texas

Louis R. Desmarais
Chairman of the Board
Canada Steamship Lines (1975) Limited
Montreal, Quebec

Charles F. Fogarty
Chairman of the Board and Chief Executive Officer
New York, New York

John P. Gallagher
Chairman of the Board and Chief Executive Officer
Dome Petroleum Limited
Calgary, Alberta

H. Anthony Hampson
President and Chief Executive Officer
Canada Development Corporation
Toronto, Ontario

Guy T. McBride, Jr.
President
Colorado School of Mines
Golden, Colorado

John M. Meyer, Jr.
Director of various companies
New York, New York

Richard D. Mollison
President
New York, New York

Allan Shivers
Chairman of the Board
Austin National Bank
Austin, Texas

Donald B. Smiley
Chairman of the Board and Chief Executive Officer
R. H. Macy & Co., Inc.
New York, New York

Claude O. Stephens
Consultant
New York, New York

Richard M. Thomson
President
The Toronto-Dominion Bank
Toronto, Ontario

Honorary Directors

Edward K. Brass
Upper Montclair, New Jersey

George S. Eccles
Director, President and Chief Executive Officer of First Security Corporation
Salt Lake City, Utah

Thomas M. Phillips
Senior Partner
Baker & Botts
Houston, Texas

Lowell C. Wadmond
Partner
White & Case
New York, New York

Registrar and Transfer Agent—Common and Preferred Stock United States
Morgan Guaranty Trust Company
New York, New York

Registrar—Canada
The Canada Trust Company
Calgary, Montreal, Toronto and Winnipeg

Transfer Agent—Canada
Canada Permanent Trust Company
Calgary, Montreal, Toronto and Winnipeg

Executive Offices
High Ridge Park
Stamford, Connecticut 06904

Tg Texasgulf Inc.
High Ridge Park
Stamford, Conn. 06904

Printed in U.S

AR24

Texasgulf 2nd quarter report

Inc

For the period ended June 30, 1976

Second Quarter Sales and Earnings

To Our Shareowners:
Texasgulf's net income for the second quarter of 1976 was below the same quarter a year ago although sales tonnages were higher. Most of the decline in net income was caused by non-operating charges, as income from operations showed an improving trend over the first quarter of 1976.

Net income for the second quarter of 1976 amounted to $20,562,000 or 67 cents per share, compared with $26,186,000 or 85 cents per share in the second quarter of 1975, as restated for foreign currency translation in compliance with the Statement of Financial Accounting Standards No. 8.

Under the new Financial Accounting Standard, long-term liabilities in currencies other than that of the United States must be revalued at the end of the accounting period using the then current exchange rate. On June 30, 1975, the Canadian dollar was equivalent to $.9707 in U.S. currency. On June 30, 1976, the Canadian dollar was equivalent to $1.0322 in U.S. currency. The consequence was a substantial adverse impact on earnings compared with a year ago.

Sales in the second quarter of 1976 amounted to $134,573,000 compared with $108,822,000 in the second quarter a year ago.

Net income for the first six months amounted to $36,519,000 or $1.19 per share, compared with $56,595,000 or

(continued on page 2)

220th Dividend Declared
A dividend of 30 cents per share payable September 15 to shareowners of record on August 16 was declared by the board of directors on July 8.

When Texasgulf was first listed for trading on the Montreal Stock Exchange on July 13th, its TXG symbol appeared on the board on the Exchange Floor. Left to right, are Gordon N. McKee, Jr., Tg vice president and treasurer; Robert Demers, president of the MSE; Dr. Charles F. Fogarty, Tg chairman; Louis R. Desmarais of Montreal, a Texasgulf director, and Earl L. Huntington, Tg vice president and general counsel.

HIGHLIGHTS
Non-operating items accounted for half of the decline in earnings in the first six months of 1976 and about three fourths of the decline in the second quarter.

* * *

Phosphate mining capacity at Lee Creek, North Carolina has been increased by the addition of a new dragline and dredge.

* * *

Potash production improved at mines in Utah and Saskatchewan.

* * *

Production at new Comanche Creek Frasch sulphur mine is improving.

* * *

Soda ash production starting in mid-August at the Wyoming Trona mine and processing plant.

* * *

Development and construction projects at Kidd Creek metals operation on schedule, including No. 2 underground mine, concentrator expansion, and construction of copper smelter and refinery. Metals sales improving.

* * *

More than 23,000 feet of additional drilling completed at Izok Lake.

* * *

Oil and gas test well planned on acreage acquired in Gulf of Alaska.

* * *

Work is continuing on Saskatchewan heavy oil recovery project.

* * *

Bulk samples are being obtained from Cerro Colorado copper deposit.

* * *

Additional drilling is being done on Marandoo iron ore deposit. Long-term sales contracts sought. Price increases obtained for Robe River iron ore pellets.

Texasgulf's phosphate feed ingredients plant at Weeping Water, Nebraska, is about 30 miles south of Omaha in the heart of the farm belt.

$1.85 per share in the first six months of 1975.

Sales in the first six months of 1976 totaled $245,122,000 compared with $217,859,000 for the same period a year ago.

Approximately half of the decrease in income before taxes in the first six months was attributable to fertilizer operations. Although fertilizer sales volume was up, average prices received for dry phosphate fertilizer products were down 40% or more from a year ago while phosphoric acid prices were down only about 10 per cent. Higher metals sales resulted in a modest increase in operating income for metals. Metal prices were lower than a year ago but are improving. The copper price increases recently announced occurred too late to have any effect on reported earnings.

The other half of the decline in the first six months was caused by non-operating items. Income before taxes was reduced over $10,000,000 by the combination of higher interest expense and reduced interest income. The increased interest expense resulted from borrowing to help finance the major capital projects underway, including the Kidd Creek mine and concentrator expansion, the copper smelter and refinery and the Wyoming soda ash project.

An additional $7,000,000 of the decrease in income before taxes resulted from accounting adjustments made in compliance with the requirement for foreign currency translation. The adjustment made pertains principally to the long-term debt payable in Canadian dollars. This resulted in a $3,500,000 charge against income in the first six months of 1976, compared with $3,500,000 of income recorded in the same period of 1975.

The same general factors noted above accounted for the decline in earnings in the second quarter of 1976 compared with that of 1975 except that non-operating items accounted for about three-fourths of the decline in the second quarter.

Effective Tax Rate

Income taxes, including the Ontario Mining Tax, have been provided at an estimated annual effective rate of 34.5 per cent for the first six months of 1976 and 34 per cent for the second quarter of 1976 compared with 40 per cent used in corresponding periods in 1975. The reduced rate reflects the lesser proportion of overall income in 1976 which is expected to be subject to the higher Canadian income tax rates including the progressive rates of the Ontario Mining Tax. Also, taxable income subject to the Ontario Mining Tax will be lower because of the increased processing allowances due to the major capital improvements currently being made at Kidd Creek.

The Outlook

With the recovery in the economy, demand for most of the company's products is strong and growing. Prices for metals are improving. Fertilizer prices have been severely depressed but should improve. Sulphur prices, which have remained firm in the domestic market, have been weaker in export with the slower economic recovery overseas. However, Texasgulf continues to be confident of the long-range growth in demand for all of its products and continues an active exploration program and heavy capital investment in major projects for further growth and diversification.

Agricultural Chemicals Division

Phosphate

More than 126,000 tons of 100% P_2O_5 phosphoric acid were produced at the Lee Creek, North Carolina phosphate fertilizer complex in the second quarter of 1976, an increase of 11% over the same period in 1975. Because of the slackened demand in domestic and export markets, production was maintained at a rate of 74% of annual capacity of 680,000 tons per year which permitted maintenance work on the four production units without shutdown.

The addition of a 50 cubic yard dragline and a 30 inch suction dredge has increased mining capacity from 3 million to 5 million tons of phosphate concentrates per year.

Texasgulf's ability to maintain a high level of sales reflected market recognition of high quality products. Lee Creek clear and green acid is the standard sought by the industry. Lee Creek superphosphoric acid is the most widely used in the growing liquid fertilizer business. A special granular triple superphosphate of high water solubility, produced in quantity in the U. S. only by Tg, is in strong demand in Europe.

In June, Texasgulf acquired the Carolina Eastern North, Inc. fertilizer plant at Mount Olive, N. C., located about 115 miles west of Lee Creek, which could produce 100,000 tons of product per year. The plant produces a liquid fertilizer, 10-34-0 (10 per cent nitrogen and 34 per cent P_2O_5) using superphosphoric acid produced at Lee Creek. This liquid fertilizer product is non-corrosive, easy to transport, and expands the number of fertilizer products produced by Texasgulf.

Feed Ingredients and Limestone

Texasgulf's limestone mine and phosphate feed ingredients plant at Weeping Water, Nebraska has provided further diversification in agricultural chemicals. During 1976 over 14,000 tons of Lee Creek superphosphoric acid have been used together with the high quality limestone mined here. Dicalcium phosphate

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sales bring a premium price for phosphates over that now obtainable from normal fertilizer sales. Until recently only an 18.5% P_2O_5 DiCal product was made, but now a 21% P_2O_5 MonoCal product is being produced. Other products made from Weeping Water's high quality calcium carbonate limestone include feed-grade limestone.

Potash

Potash production has improved over a year ago at Texasgulf's Cane Creek Mine in Utah. The advanced solution mining experimental work at Cane Creek continued and during the second quarter of 1976 two new experimental wells were completed. Efforts to improve pond productivity using dyes were encouraging.

Operations at Allan Potash Mines in Saskatchewan continued to improve. Production increased to a rate of about two-thirds of the design capacity of 1.5 million tons of potash per year. Tg has a 40% interest in this operation.

In May, nine potash producers including Texasgulf filed suit against the Saskatchewan government on the basis that the prorationing fee and reserve tax breach the government's agreements not to increase severance and production taxes before 1981. The Provincial government has continued negotiations for the purchase of at least one of the producing mines under its announced plan to purchase or expropriate some or all of the mines.

During the first six months of 1976 higher domestic potash prices and substantially increased tonnages sold were offset by higher costs and lower export prices.

Industrial Chemicals Division

Sulphur

Frasch sulphur production increased about 16% over a year ago, and production of recovered sulphur at four plants in Alberta continued at normal levels.

Approval of the Mexican government has been received to merge Azufres Nacionales Mexicanos, S.A. de C.V. (Anamex) into Compania Exploradora del Istmo (CEDI). Texasgulf estimates the Anamex concession has about 7.4 million long tons of sulphur reserves adjacent to CEDI's Texistepec mine. Texasgulf owns 34% of both CEDI and Anamex. The remaining 66% is owned by the Mexican government. The Texistepec plant facilities can be used to mine these reserves.

Soda Ash

Plant construction continued on schedule, and the first of two circuits for the production of soda ash at Texasgulf's trona mine near Granger in southwestern Wyoming is now in the process of starting up. The first soda ash production is anticipated in the third week of August.

The design capacity of the plant is one million tons per year, and is readily expandable to two million tons.

Increased production of natural soda ash from trona is needed to meet the growing requirements of the glass and chemical industries. The demand continues to grow and more synthetic Solvay soda ash plants are closing due to environmental problems and high production costs. The current price for soda ash is $50 per ton f. o. b. Wyoming. All of Texasgulf's soda ash expected to be produced during the first year has been committed for sale.

Caustic soda-chlorine

Marketing, financial and technical studies are continuing on a planned caustic soda-chlorine plant at Gulf in Matagorda County, Texas, the site of Texasgulf's original sulphur mine.

About the Back Cover: Whistling swans enjoy a peaceful coexistence with giant draglines at the Lee Creek phosphate mine in eastern North Carolina. The swans commute between North Carolina and Baffin Island, home of the first commercial mine, Nanisivik, north of the Arctic Circle in North America.

Metals Division

Kidd Creek Operation

Kidd Creek metals operations at Timmins, Ontario were normal and satisfactory during the second quarter. Production at the zinc metal plant was near the design capacity of 10,000 tons per month, much higher than a year ago when operations were curtailed because of reduced demand.

Development and construction projects at Kidd Creek continued on schedule. The shaft for the No. 2 underground mine has reached a depth of 3,200 feet. Its completion to a depth of over 5,000 feet will permit increasing Kidd Creek mine production from 3.6 to 5 million tons of ore per year.

Mining in the open pit is nearing its planned completion to a depth of 800 feet, and the transition to underground

Texasgulf's soda ash plant near Granger in southwestern Wyoming is in the process of starting up.

mining is proceeding on schedule. The backfill plant is now in operation, producing a mix of crushed rock and cement to fill mined-out stopes and permit 100 per cent recovery of the ore.

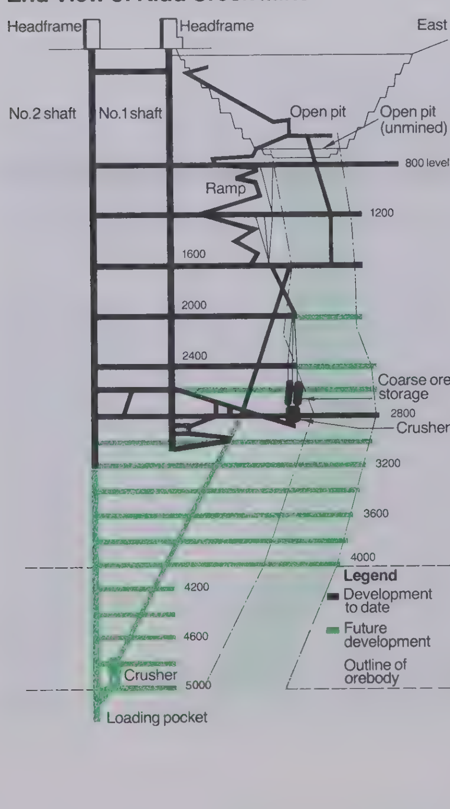
The addition of the fourth circuit in the Kidd Creek concentrator is also on schedule for completion in mid-1978.

Engineering, design, procurement and construction on the first of two 65,000 ton units of the Kidd Creek copper smelter and refinery are proceeding in Toronto and at Timmins. A draft environmental impact study has been presented to the Ontario Ministry of the Environment. Contracts have been awarded for a sulphuric acid plant, oxygen plant, batch concrete plant and piling. Specialized smelting furnaces, waste heat boilers, and other items have been ordered. Site preparation and grading have been completed. Pile driving is under way. Foundations will be completed this fall so that steel erection can proceed during the winter months. The smelter and refinery should start up in the second quarter of 1979.

Nanisivik to start up

Construction of underground mining and surface facilities for the Nanisivik zinc-lead mine on Baffin Island is nearing completion and is scheduled to start up October 1. Texasgulf retains a 35 per cent net profits interest in the production planned at the rate of 130,000 tons of zinc concentrates and 10,000 tons of lead concentrates with some silver annually.

End View of Kidd Creek Mine



Metals Marketing

Recovery in key sectors of the economy, especially the automotive industry, has stimulated renewed demand for metals.

Zinc metal sales have improved each month of 1976. The price for special high grade zinc has remained steady at 37.5 cents per pound. Zinc concentrate sales, however, are about 15 per cent below those of a year ago.

Copper sales were strong. Prices in North America increased in April from 66 cents to 70 cents per pound, and in early July to 74 cents (U.S. funds).

Silver sales were also strong and prices improved during the first six months of 1976, from less than $4 per ounce to $4.90. Demand for lead improved and prices increased in early July, from 23 cents per pound to 24½ cents. Cadmium sales were high, at a price of $2.75 per pound.

Minerals Exploration Division

An active minerals exploration program continued in Canada, the United States, Mexico, Panama, Australia, Ireland, Spain and South Africa.

Izok Lake

More than 23,000 feet of new diamond drilling had been completed on the base metal sulphide deposit at Izok Lake, in the Northwest Territories of Canada, 225 miles north of Yellowknife, when drilling was suspended in late May because of an early break up of the ice. Assays from 67 holes drilled so far in 1976 have been completed and preliminary ore tonnages calculated for the three sulphide zones in the deposit which occurs partly under Izok Lake and partly under a 750-foot-long island in the southern portion of the lake.

The strike length of the main zone has been extended to 2,000 feet, the north zone to 700 feet, and the northwest zone to 1,500 feet. Ore tonnages are now calculated at over 12 million tons assaying 13.7% zinc, 2.82% copper, 1.42% lead and 2.05 ounces of silver per ton. The deposit is shallow and ideal for open pit mining.

Geologic mapping, geophysical surveys and diamond drilling are continuing on land. A further program of drilling from lake ice locations will be resumed when weather permits during the 1976-77 field season.

Drilling on another geophysical anomaly on the south shore of the lake has intersected a 50-foot zone of copper and zinc mineralization. Additional exploration work on this anomaly and several others in the area is underway.

A gold prospect 18 miles south of Izok Lake is now in the early stages of exploratory drilling.

Dividend Reinvestments Growing

The number of Texasgulf's shareowners enrolled in the company's dividend reinvestment plan continues to increase. More than 8 per cent — 5,061 shareowners — reinvested the latest dividend in the purchase of additional shares of Tg stock.

In addition to reinvestment of dividends the plan also permits shareowners to add cash payments up to $3,000 each quarter for purchase of additional shares. Each shareowner's account is credited with full and fractional shares equivalent to the dividends and cash invested, thus insuring that fractional as well as full shares will earn future dividends. Service charges on small transactions are kept to a minimum since all participants' purchases of additional shares are pooled under the plan.

Shareowners may obtain a brochure describing the dividend reinvestment plan and a card for enrolling by writing to:

David M. Crawford
Secretary
Texasgulf Inc.
200 Park Avenue
New York, N.Y. 10017

or:
Morgan Guaranty Trust Company
P.O. Box 3506
New York, N.Y. 10008

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About 1 million tons of high copper and low zinc mineralization have been outlined at Hood River, 25 miles north of Izok Lake, which could be processed at Izok Lake if and when developed.

Other Minerals Exploration

In the Stikine District of British Columbia, drilling was resumed on the Red Group claims. Three holes have been drilled, two of which encountered significant copper values. An intersection of 160 feet in the last hole assayed 2.21% copper.

In Wyoming, drilling continues on the uranium project at Radon Springs. Evaluation work is in progress.

Exploration work continues at the Iron Dyke project in Oregon and on the Red Ledge prospect in Idaho in order to define the mineralization and structure.

At Cripple Creek, Colorado, exploration work to determine the possibility of open pit mining as well as underground mining is continuing. Two holes drilled from the surface encountered encouraging gold values. One hole drilled from underground has encountered a narrow zone of very high grade gold mineralization. Further exploration is necessary before its significance can be assessed.

Oil and Gas Division

Production of oil and gas in the United States and Canada was below a year ago, but will increase as new production comes on stream.

In Canada, the Federal Government announced new oil prices and has allowed natural gas prices to increase.

On July 27, the U.S. Federal Power Commission raised the ceiling price on gas newly discovered or newly sold in the interstate market after Jan. 1, 1975, from 52 cents to $1.42 per thousand cubic feet. The ceiling for gas committed after Jan. 1, 1973, was raised to $1.01. These increases have been delayed by a temporary restraining order.

In the Provost area of Alberta, 10 new infill wells were drilled and completed, adding to the 64 shallow wells previously in production.

Oil and Gas Exploration

Significant exploration developments occurred in the second quarter. Texasgulf joined with Gulf Oil Corporation, as operator, and several others to acquire three blocks on some of the most attractive structures in the April 13th lease sale in the Gulf of Alaska. Negotiations are currently under way to join with Shell Oil Company in drilling an initial exploratory test later this year which will serve to evaluate one of these blocks, 105 Icy Bay, in which Texasgulf holds a 5% interest.

Texasgulf has a 12.5% interest in a group headed by Rainbow Resources Inc. for exploratory drilling in the Rocky Mountain area of Wyoming and Colorado. The program will include drilling 18 test wells on as many structures to evaluate 170,000 gross acres held by the group.

North Battleford, Saskatchewan

In Saskatchewan, work is continuing on the heavy oil recovery project at North Battleford, where Texasgulf has a 50 per cent interest in large potential oil reserves. A five-well test system has been completed by the addition of three wells this year. Individual wells are being alternately steamed and produced to evaluate the feasibility of heavy oil recovery.

Overseas Areas

Texasgulf has a continuing interest in petroleum concessions offshore Sene-

The Cerro Colorado copper deposit is in a mountain range 40 miles from David, Panama.

gal, Nicaragua and Thailand and is performing geophysical work on an 11,210-square-mile concession in the Indus Valley of Pakistan. Negotiations are in progress to explore an additional 500-square-mile concession in the Potwar Basin of the Indus Valley.

International Division

Panama

Cerro Colorado. Work continues on a feasibility study of the Cerro Colorado porphyry copper deposit in western Panama to be completed in May, 1978. Texasgulf is manager of the project and will have a 20 per cent equity participation in the venture in association with the Government of Panama.

Four diamond drills are being used to further define the copper mineralization, and a 2,500-foot adit is being driven by miners from Kidd Creek and Panama. The adit which has now penetrated 800 feet will provide necessary information on the ore grade of the deposit and bulk samples for pilot plant metallurgical testing at the Colorado School of Mines Research Institute.

Engineering for the concentrator, smelter, port site, access roads and related facilities is being done by a joint venture between Brown & Root Overseas Inc. of Houston and Seltrust Engineering Ltd. of London.

Western Australia

Marandoo. Negotiations are continuing with Japanese steel mills for sales contracts covering 18 million tons per year of Marandoo iron ore over a 20-year period. Plans for the project would include Japanese equity participation. Additional drilling is under way to further increase the proven reserves of the Marandoo deposit.

Robe River. A second loadout facility for the Robe River iron ore operation, in which Texasgulf has a 10.5 per cent interest, has been completed, increasing capacity from 13.2 to 15.8 million tons of ore per year. Plans are now being considered to increase ore capacity to 19.8 million tons by 1978.

Negotiations are being carried out for further sinter fines sales in Europe and Japan. Nearly 30 per cent of present sales are to Europe.

Texasgulf Day in North Carolina Proclaimed

In recognition of the tenth anniversary of Texasgulf's phosphate operations, Governor James E. Holshouser, Jr. declared July 25 "Texasgulf Day" in North Carolina. More than 4,500 people toured the Lee Creek mining and processing facilities. In his proclamation, Governor Holshouser said:

"WHEREAS, Texasgulf pioneered in the mining of phosphate ore in Beaufort County and was the first to discover the extent of the deposits of this important natural resource beneath the Pamlico River lowlands; and

"WHEREAS, Texasgulf has invested nearly $200 million in its phosphate mining and fertilizer materials manufacturing complex at Lee Creek and plans for greater investment in the future, providing today jobs for more than 1,000 local workers and creating a strong economic base for Beaufort County and the area; and

"WHEREAS, Texasgulf has pioneered in the study of ground water in the area and the more efficient use of water in industry, as well as in research to make land reclaimed after mining more productive than before mining; and

"WHEREAS, Texasgulf has been an outstanding industrial citizen, and it is fitting that on the Tenth Anniversary of production at Lee Creek we recognize Texasgulf for its many contributions to the total life of our State and our Nation; and

"WHEREAS, Texasgulf has set aside July 25 for an Open House program at Lee Creek and has invited the public to help celebrate its Tenth Anniversary;

"THEREFORE, I proclaim Sunday, July 25, 1976

TEXASGULF DAY IN NORTH CAROLINA

and commend its observance to our citizens."

Increases in pellet prices have been obtained from the Japanese steel mills on half of the contract tonnage.

Pandora Project. Metallurgical test work continues on the Pandora platinum-ferrochrome project in South Africa. Discussions are being held with other companies for possible equity participation in the project.

Peabody Coal Company

On July 8, Kennecott Copper Corporation sent letters to 100 major companies, inquiring whether any of them would have an interest in purchasing 20% of Peabody Coal Company should Kennecott decide to spin-off to its shareholders the remaining 80%. Kennecott stated in the letter that current active discussions with possible purchasers of 100% of Peabody would be continued simultaneously. The offer of Texasgulf and its bidding group to acquire Peabody is being actively discussed with Kennecott. This group now includes Texasgulf, 25%; Newmont Mining Corporation, 25%; The Williams Companies, 25%; Fluor Corporation, 20%, and the Equitable Life Assurance Society of the United States, 5%.

Texasgulf Canada Ltd. Financing

On June 24, Texasgulf's wholly-owned subsidiary, Texasgulf Canada Ltd., sold $25 million (Canadian) of 9½% notes due 1982 and $25 million (Canadian) of 10% debentures due 1986 in the international capital market. Proceeds will be used to finance part of the cost of Texasgulf Canada's capital expenditures. The proceeds of the borrowing were temporarily used to prepay most of the outstanding Canadian bank loans.

New Corporate Headquarters

As previously announced, Texasgulf will move its corporate headquarters from New York City to Stamford, Connecticut, early in 1977. A long-term lease has been signed for 73,500 square feet of space in a three-story building in High Ridge Park in which Texasgulf will be the sole tenant. Present offices in the Pan Am Building occupy 42,000 square feet.

The continued loyalty and support of the company's shareowners, employees, customers, suppliers and community neighbors is deeply appreciated.

CHARLES F. FOGARTY
Chairman

RICHARD D. MOLLISON
President

July 30, 1976

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Texasgulf Inc.

Consolidated Statement of Income

(amounts in thousands)

	Three Months Ended June 30		Six Months Ended June 30	
	1976	1975(1)	1976	1975(1)
Sales	$134,573	$108,822	$245,122	$217,859
Royalties, Interest and Other Income	2,319	4,392	5,022	11,420
	136,892	113,214	250,144	229,279
Costs and Expenses				
Operating, delivery and other related costs and expenses, including exploration	91,814	64,333	166,660	122,908
Selling, general and administrative	7,043	2,052	14,895	5,450
Interest	6,923	2,973	12,770	6,262
Income taxes	10,550	17,670	19,300	38,064
	116,330	87,028	213,625	172,684
Net Income	$ 20,562	$ 26,186	$ 36,519	$ 56,595
Net Income Per Share	$0.67	$0.85	$1.19	$1.85
Dividends Per Share	$0.30	$0.30	$0.60	$0.60

Consolidated Balance Sheet

(amounts in thousands)

	June 30 1976	December 31 1975
Assets		
Cash and short term investments	$ 35,077	$ 36,965
Accounts receivable	77,622	80,893
Inventories	201,365	172,737
Total Current Assets	314,064	290,595
Investments, advances and other assets	58,355	47,724
Recoverable Federal income taxes	12,100	12,100
Property, plant and equipment, net	874,310	805,319
	$1,258,829	$1,155,738
Liabilities and Stockholders' Equity		
Current maturities of long term debt	$ 19,725	$ 34,611
Accounts payable and accrued liabilities	52,401	53,402
Income taxes payable	3,529	7,384
Deferred income taxes applicable to current assets	9,350	8,690
Total Current Liabilities	85,005	104,087
Income taxes not currently payable	10,150	9,250
Long term debt, less current maturities	318,661	227,913
Deferred credit — proceeds from advance gas sales	5,596	7,568
Deferred income taxes	191,064	178,793
Stockholders' equity	648,353	628,127
	$1,258,829	$1,155,738

(1) Restated for effect of foreign currency translation in accordance with FASB No. 8.

The accompanying statements, which should be read in conjunction with the Consolidated Financial Statements included in the Annual Report to shareholders, have been prepared in the ordinary course of business for the purpose of providing information with respect to the interim period ended June 30, 1976 and are subject to audit at the close of the year.

July 20, 1976

Gordon N. McKee, Jr., Vice President and Treasurer

Lithographed in U.S.A.


Whistling Swans at Lee Creek Phosphate Mine

Texasgulf Inc.
200 Park Avenue
New York, N.Y. 10017

Second Quarter Report 1976

First Class Mail